

**CONGRESSIONAL PERSPECTIVES ON ELECTRICITY
MARKETS IN CALIFORNIA AND THE WEST
AND NATIONAL ENERGY POLICY**

HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND AIR QUALITY

OF THE

**COMMITTEE ON ENERGY AND
COMMERCE**

HOUSE OF REPRESENTATIVES

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CONGRESSIONAL PERSPECTIVES ON ELECTRICITY MARKETS IN CALIFORNIA AND THE WEST AND NATIONAL ENERGY POLICY

TUESDAY, MARCH 6, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ENERGY AND COMMERCE,
SUBCOMMITTEE ON ENERGY AND AIR QUALITY,
Washington, DC.

The subcommittee met, pursuant to notice, at 1 p.m., in room 2123, Rayburn House Office Building, Hon. Joe Barton (chairman) presiding.

Members present: Representatives Barton, Largent, Whitfield, Ganske, Shimkus, Shadegg, Radanovich, Bono, Walden, Tauzin (ex officio), Boucher, John, Waxman, Markey, Strickland, Barrett, and Luther.

Staff present: Jason Bentley, majority counsel; Miriam Erickson, majority counsel; Hollyn Kidd, legislative clerk; Karine Almian, professional staff; Rick Kessler, minority counsel; and Sue Sheridan, minority counsel.

Mr. BARTON. If the subcommittee could please come to order, if the audience would take your seats, we have approximately 30 Members who want to testify.

Today we are going to receive testimony from Members of Congress, both sides of the aisle, perhaps several Senators from the other body, on the situation in California and the West and the general energy policy. I am looking forward to this. It is obvious there is a lot of interest, given the number of Members that asked to come before the subcommittee and testify.

This subcommittee will continue to review what has happened and is happening in California and the surrounding Western States. We want to learn from the lessons of California's retail restructuring attempt, its efforts in the wholesale market and its responsibility in attempting to manage supply and demand for the State and the reactions at various times to the problems that began last summer and continue to this day.

The lessons that we can learn from what has happened out West will help other States as they decide whether or not to open their retail electricity markets.

We also want to conduct oversight over the general interstate situation in the West, both in the wholesale market—and consider what legislation, if any, might be needed at the Federal level in that area. I hope that the members of the subcommittee will think

not just short term and State specific, but longer term and more generally what is going on.

The development of additional generation capacity in this country should not be discouraged. In fact, it needs to be encouraged, in my opinion. The people that produce power should be kept interested in selling in the markets that need that power and encouraged to do so. We should also look at transmission capacity and what, if anything, we need to do at the Federal level to expedite additional transmission capacity for our country.

Finally, some thought needs to be given to the consumers, the high prices that they have to shoulder and sometimes the inability of the market to send the appropriate price signal at the appropriate time.

On our second, panel, we are going to look at the broader issue of national energy policy. We have approximately 15 Members to testify on that issue, including the Republican Whip and the Republican Conference Chairman. We are going to hear testimony from Members representing all parts of the country. This is a good thing, because we do have regional energy markets, and if you have regional markets, there are going to be regional differences of opinion and regional differences in emphasis in the areas of our country.

The subcommittee is going to conduct a number of hearings this spring as we attempt to put together a comprehensive energy policy for this country. The ability of the Members of Congress who are not on our committee to come forward and give their perspective before we put together a proposal, I think is very important and is very beneficial to the subcommittee. So I appreciate all the Members who have asked to testify.

With that, I would see if the full committee chairman would like to give an opening statement.

Chairman TAUZIN. Go to the other side first.

Mr. BARTON. We will be honored to go to Mr. Markey. Usually I yield to the full committee chairman, but if he wants to defer to the distinguished member from Massachusetts, that is fine by me.

Mr. MARKEY. I thank the chairmen very much, both of you. Thank you so much for having this great hearing today, hearing from our congressional colleagues.

President Bush has suggested that the solution to the California energy crisis is to drill for oil in the pristine Arctic National Wildlife Refuge. He makes this recommendation despite the fact that only 1 percent of California's electricity comes from oil-fired power plants. In fact, 67 percent of all the oil we consume in America, 13 million barrels a day out of the 20 million barrels we consume, just goes into gasoline tanks. So I think if you are looking for the problem, it is right there in every vehicle we are driving every day, not trying to pretend it is an electricity crisis, because it is not.

The Republican leadership has introduced a bill to reduce foreign oil dependence, and they want to reduce it from 56 percent today to 50 percent 10 years from now. That is their goal, only down to 50 percent in terms of our foreign dependence, which ultimately undermines quite simply the futility of taking that approach, if all we do is reduce the dependence on foreign oil down to 50 percent,

Because we consume 25 percent of the oil today, but we have only 3 percent of the world's reserves.

Seventy-six percent of those reserves are in OPEC, and there is not a lot we can do about that, unless we look at fuel economy standards. Sending in the oil rigs to scatter the caribou and shatter the Arctic wilderness is what I call the Unimog energy policy. You might have heard about the Unimog. It is a proposed new SUV that will be 9 feet tall, 7.5 feet long, 3.5 inches wider than a Humvee, weighs 6 tons and gets 10 miles per gallon. Or is that 10 gallons per mile? I don't know. But it is heading in the wrong direction. That is not the big announcement that should have been made by the auto industry last week—A new breakthrough: They are even bigger; they are even more efficient at guzzling gas.

It perpetuates a head-in-the-haze attitude toward polluting our atmosphere with greenhouse gasses and continuing our reliance upon OPEC oil for the foreseeable future. That is the bad news about that announcement. It is saying we are going to become more dependent.

Now that our energy roles have forced us to think about the interaction of energy and environmental policy, it is a good time to say "no" to the Unimog energy policy and "yes" to a policy which moves us away from gas-guzzling SUVs and automobiles to clean-burning fuels, hybrid engines and much higher efficiency in our energy consumption. And we can do it. If we just improve our fuel economy standards by 3 miles per gallon, we will be able to save all the oil that we would produce out of the Arctic refuge.

As a matter of fact, in 1987, 13 years ago, the average fuel economy in the United States was 26 miles per gallon. Today, 13 years later, it is 24 miles per gallon. In other words, in this technology-based economy, in this country that prides itself on its mastery of technology, we have gone backwards by 2 miles per gallon in the last 13 years, which is the height of technology innovation in our country's history. So just using existing technology on the shelf already, we would be able to save 3 miles per gallon, and more, if we made the commitment to do so.

There is 26 to 38 trillion cubic feet of natural gas at Prudhoe Bay. I support going for it. Let's get that 26 to 38 trillion feet.

Mr. BARTON. The gentleman's time has expired.

Mr. MARKEY. The same thing is true across the board. We just need a common-sense policy.

I thank the chairman.

Mr. BARTON. I thank the gentleman from Massachusetts.

The gentleman from Louisiana, Mr. Tauzin, for a brief opening statement.

Chairman TAUZIN. Thank you, Mr. Chairman.

Mr. Chairman, I want to commend you for holding this important hearing on the power situation in the Western third of our Country as you and the committee explore a new national energy policy for the entire country.

There was a gentleman in the Carter administration, named Bob Freeman, who once postulated a truth profundity. He said that energy would last us forever if we just didn't use it, and it was upon that basis that much of the energy policy of the Carter years was

formulated. And I hear that again echoed today in this room, that if we simply stop using it, everything will be okay.

In California, electric generating capacity dropped 2 percent in the last 10 years. Demand went up 14 percent. Now, we can stick our heads in the sand and believe that demand won't go up in this country, that the high-tech economy we are building doesn't require more energy; or we can face the real truth, and that is that when consumers need energy in this economy, this Nation needs to respond by making it available.

Of course we ought to have conservation and conservation ought to be part of our plans. But recognizing growing demand, Mr. Chairman, requires us to recognize that supplies are critical and that keeping this country secure in its supplies is as important as keeping California secure in the supply of energy.

We have had a previous hearing of this subcommittee—and I want to thank you for that—on the California regulatory experience. I think we understand a lot of those issues better today. You and I went to California. We had a chance to talk firsthand with the generators and the utilities and the regulators in California; and I think we also have a much better idea about what has to be done to make that market work.

Frankly, I must say that having been there with you, I am very skeptical about the road that California itself is taking in trying to solve the problem for Californians, but I am also very pleased that you going to hear from other Members of Congress today, and that you are giving them a forum to voice their concerns and their opinions, because I think each will bring a new perspective to our understanding of the California situation.

California, as we said earlier, is a huge part of this country, 12 percent of our GDP, and you can't have a crisis in that big a part of our country without it being a crisis for America. And we need to collectively find the answers. We are realizing more and more that electricity problems of one State are never confined to that State's boundaries. They are regional problems, and that is why this Western hearing is so important, because the whole Western region has been affected.

We should be cautious about quick fixes in one State that can have unintended consequences for its neighbors, but I am confident that given the chance, market-based approaches with an emphasis on supply are the long-term solution. The experience of States like Pennsylvania, Texas and Ohio, with the electricity markets that are working, should demonstrate to us that these markets can and will work.

I want to urge all of our colleagues, those who are coming to testify and those who serve you on this great subcommittee, to look at the experience of the States where it is working, just as you look at the State of California where it has failed, and learn the differences and to help instruct the Nation on making good policy that can make good energy markets work again for the country.

Joe, thank you for this hearing. I wish you well again.

Mr. BARTON. Thank you, Chairman Tauzin. We appreciate your attendance.

I am told the gentleman from Louisiana does not wish to make an opening statement since he was here before. The gentleman

from California, Mr. Waxman, is recognized for 3 minutes for an opening statement.

Mr. WAXMAN. Thank you very much, Mr. Chairman. I am going to be very brief because we have a very long and distinguished list of Members of the House and, I understand, maybe even from the Senate that will come and talk to us today about this energy issue.

The energy problems in California, as Chairman Tauzin noted, are not going to be just a California problem; it is a problem for the West and it is going to be a problem all around this country if we have the expression, "we want market forces to work"; that is what we were told in California, market forces were going to work in California and consumers would benefit. Instead, we have seen that California has clearly a dysfunctional market.

We in the delegation met with Federal Energy Regulatory Commission Chairman Curt Hébert. During that meeting Mr. Hébert discussed how dysfunctional this California energy market is, and he said it was broken with regional and national ramifications. Well, what we are waiting for is if, as he said, California cannot put things right on its own, we want to know what the policy is going to be from this administration and from the FERC.

I am interested in hearing what our colleagues have to say. I look forward to working with all of them and this new administration in dealing with this problem, but let no one think that what has happened in California will happen only in California. It is happening elsewhere, and it will continue to happen elsewhere if we have a blind faith in what is called market forces and deregulation without making sure that the market is really functioning and that there is in fact a market to function.

I yield back the balance of my time.

Mr. BARTON. I thank the gentleman from California. We appreciate his interest in this issue. It is very important to his constituents. We really are pleased you are going to be involved in the debate.

The gentleman from Illinois, Mr. Shimkus, for a brief opening statement.

Mr. SHIMKUS. Mr. Chairman, I too will be brief.

I think one of the big lessons we have learned so far is you can deregulate the industry if you are inherently an energy exporter. It is very tough to deregulate if you are an energy importer. Then you constrain yourself to other forces which—then the consumer or the market has no control.

When we talk about energy, we are talking about a broad portfolio of fuels, not really petroleum based, mostly natural gas, coal, nuclear. Those make up the energy portfolio that creates electricity for our use. Really one of the answers on the national scale is to have a wide range of choices, and where I beg to differ with my friend from California, the market will determine the most efficient use of these fuels. Make no mistake about it, if government intervenes and tries to have the fuel of choice, which is what we have seen with natural gas, then the market will be distorted. Then you will have government intervention through legislation that distorts the market.

So I think we need to keep our clean air regulations, but we need to explore a broad base of fuels and let the market make the most efficient use for our consumption.

The transmission grid is another thing we are going to be highly involved in. Even in Illinois, it should be a regional approach, because even though the Illinois utilities were in a transco, many of them are leaving. We in essence may have three RTOs or transcos in the Midwest area where, for more efficient operation, you will probably need to get that down to one. We will be working with FERC to do that.

An interesting issue, very emotional. I look forward to it.

Thank you, Mr. Chairman.

Mr. BARTON. I thank the gentleman from Illinois.

Does the gentleman from Kentucky wish to make an opening statement?

Mr. WHITFIELD. Mr. Chairman, thank you very much.

For those of us that have listened to the testimony and have read the articles about what is going on in California, I think many of us would conclude that if California had set out to determine a way to make energy more expensive, they probably could not have done a better job than what they did.

I was reading an article just recently that said neither Governor Davis nor the State legislature seemed ready to do the one thing that would solve the energy problem, and that is free retail rates. In fact, Governor Davis admitted as much a few weeks ago saying, "Believe me, if I wanted to raise rates, I could solve this problem." So I look forward to the testimony of the Representatives from California and recognize that what is happening in California does have the potential to affect our entire country on this important issue.

Mr. BARTON. Thank you.

Does the gentleman from Oregon wish to make a brief opening statement?

Mr. WALDEN. Mr. Chairman, the current energy crisis is not just a California problem, it is a regional problem. The Northwest is already feeling the drastic consequences of high electricity markets. We are now at the epicenter of the perfect storm of electricity, high energy prices and low water levels behind our dams.

As you know, Mr. Chairman, over 70 percent of the Pacific Northwest is powered by hydropower. That means in a bad water year, like we are in right now, the Northwest has got to go to market to supplement its energy needs. As anyone can see, given the crisis facing California, this is the worst time to purchase energy from this spot market. These high energy costs are now being passed down to our farmers, small business people, schools, seniors, anybody purchasing power.

Some businesses have already begun to close. Farmers are now being bought out of their energy contracts for pumping. While it might help some of these farmers this year when they have low commodity prices and high energy costs, it sure raises havoc with the community in which they farm. The implement and seed and fertilizer dealers will not be able to continue without the farmers farming. If something doesn't happen soon to calm that storm, more trouble will follow.

I know that Oregon is not the only State to experience these types of problems.

Mr. Chairman, I remain concerned about the impact of some of the California utilities' inability to pay the bills for the power they have purchased from utilities in my region and the impact that may have on our ratepayers; and I look forward to hearing the comments of all the witnesses.

Mr. BARTON. Does the gentleman from Oklahoma, the vice chairman, wish to make a brief statement?

Mr. LARGENT. Just a brief one, Mr. Chairman. I would like to enter my full opening statement for the record and also commend to the panel an article that appeared in the Los Angeles Times October 10, 2000, on "Transmission Grid Funding Tangled Up by Power Crisis in California." I would like to enter that into the record as well.

[The information referred to is retained in subcommittee files.]

Mr. BARTON. Without objection, so ordered.

Mr. LARGENT. I would just say I look forward to the testimony of our panels before us. This is an important part of the process as we move forward to doing what we can at the Federal level to untangle the grid as it exists today.

[The prepared statement of Hon. Steve Largent follows:]

PREPARED STATEMENT OF HON. STEVE LARGENT, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF OKLAHOMA

Mr. Chairman, thank you for holding this afternoon's hearing. I'm looking forward to listening and learning our House colleagues' perspective on the energy crunch that has hit California and the ancillary impact it has had on the surrounding states.

I've said previously and I'll repeat it today, California took a bold and forward looking step when it decided five years ago to restructure the state's electric utility industry. Unfortunately, the implementation of its deregulation plan was based on the presumption that wholesale rates would remain low. It was a very faulty presumption.

Wholesale rates did not remain low—in fact, wholesale prices reached historic highs. Consequently, PG&E and southern California Edison were unable to recoup their costs for the purchase of power on the spot market because consumer's retail rates remain capped.

The result—a dysfunctional market, two very large investor-owned utilities on the verge of bankruptcy, the state of California floating a \$10 billion bond issue to ensure that PG&E and So. Cal Edison can continue to purchase power, and the very real possibility of a state-wide owned transmission system.

Mr. Chairman, since December I've heard several people use the "perfect storm" analogy to describe California's electricity crisis. At this point, I would ask for unanimous consent to insert into the record a "Dear Colleague" I sent on October 13, 2000. The title of the "Dear Colleague"—"Forecast: Storms Ahead! The perfect storm".

The text of the "Dear Colleague" is only a few sentences:

"Dear Colleague:

Increased demand, stagnant supply, and a congress stuck in neutral. Are these three elements combining to create "the perfect storm"?

California is only the first "weather pattern" showing up on doppler radar pointing to the growing crisis in our national electric delivery system."

On the reverse side of the "Dear Colleague" was an October 11, 2000 article from the Los Angeles Times chronicling the lack of investment of the transmission grid.

I take no pleasure in predicting California's electricity problems. I wish I had been wrong. But Mr. Chairman, with your leadership, I'm confident that this subcommittee will help lay the foundation to alleviate some of California's energy problems. I look forward to working with you and all interested parties on this worthy endeavor.

Mr. BARTON. Seeing no other members present, the Chair would ask unanimous consent that all members not present be given the requisite number of days to submit a formal opening statement in the record.

Hearing no objection, so ordered.

We want to welcome our first panel.

If everyone testifies who signed up, we are going to have about 30 people today. I will start out with some of the best and brightest. By seniority, Mr. Filner of California, you are recognized for 5 minutes. Your statement is in the record in its entirety.

Welcome to the subcommittee.

**STATEMENT OF HON. BOB FILNER, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. FILNER. Thank you, Mr. Chairman, for giving all of us the opportunity to testify before this distinguished committee. I particularly thank you for coming to San Diego last summer. You recognized the crisis could spread and you brought your subcommittee there, and we appreciate that very much.

I represent San Diego, California, which was ground zero in this whole tragic episode. We were the first part of California to fully deregulate. That is, our retail prices and our wholesale prices were deregulated and within the space of 1 month, retail prices doubled; within the space of 2 months, they tripled. Panic literally ensued in San Diego, and I think you witnessed part of it, Mr. Chairman. Scores of small businesses closed, almost right away. There was a sense that people could not keep up with these prices either as individuals, families or as businesses.

I want to tell the committee that in San Diego, this was not fundamentally a crisis of supply and demand. There were tight supplies, but the summer was less warm than the previous one, the demand had actually gone down from the previous summer, and the costs doubled, tripled, and were heading even higher. There was no cost relationship to these higher prices. The natural gas price, the higher gas price, had not yet entered the picture. In fact, at the request of our San Diego delegation, FERC investigated the situation and found these prices to be unjust and unreasonable, and, therefore, illegal.

Mr. Chairman the prices that we are paying in California are illegal. And yet FERC took no sanctions against the perpetrators of those illegal rates, and by not taking action, basically said, "Go in and rob the State blind, then rob the region blind, and then rob the country blind."

The utilities in the northern and central parts of our State are facing bankruptcy, bankruptcy coming about because of the illegal prices that they have to pay. Mr. Chairman—at this moment, the State of California is paying for the cost of electricity \$2 million an hour, \$45 million a day, \$1.2 billion a month. The energy cartel which is responsible for this has taken \$20 billion out of our State in the last 6 or 7 months, and we are being bled dry.

As we heard from the Representative from Oregon, this has become a regional problem. Washington, Oregon, Idaho and New Mexico are now paying these higher prices. It will be a national problem shortly.

The President has announced he is going to take a hands-off policy and let the markets work, as we have heard from several members today. I will tell this committee, there ain't no market in California, there ain't no market in the Western region. There is a small energy cartel which controls the prices, and in fact they manipulated the market to their benefit.

I do have legislation, Mr. Chairman, H.R. 268, which not only orders the FERC to set cost-based rates for electricity in our region, but says that the excessive costs over what is found to be just and reasonable shall be refunded to the consumers of California. I am joined in this bill by Congressman Hunter of California, who unfortunately could not be with us today. It is in his district that the tragic shooting took place. I know that we all mourn for those families.

This is the only way, Mr. Chairman, that California will be made whole, to refund the money to the utilities of California and the consumers of San Diego. I think the administration has to act to do that.

I agree with the chairman of the full committee, we do need more generating capacity and the Governor is working on that very diligently. And, yes, we need more conservation; and, yes, we need to work on renewable resources. But the market is not there. The market has been manipulated. There is evidence of illegal withholding of power. There is evidence of falsifying transmission documents to raise prices. There is evidence of laundering electrons through other States when there was a cap in California.

Just a couple days ago, Mr. Chairman, a television station in San Diego ran a story which they showed that Duke Energy, a member of the energy cartel that I speak about, removed its largest turbine from production in its San Diego plant 50 percent of the time during the recent Stage 3 alert in California. During 32 days of our Stage 3 alert, the plant removed from service its largest turbine, taking out 222 megawatts of power.

We had the power, Mr. Chairman, there was no shortage. They removed it illegally.

I believe that the FERC must take action to restore price stability for the 3 year transition period during which we are building new capacity, and they must take sanctions. Just yesterday, Mr. Chairman, I filed charges against this energy cartel for grand larceny, theft, fraud, attempted murder, and violation of antitrust rules. This cartel is stealing our economic future, they are robbing our bank accounts, they are killing off our businesses; and I think this committee ought to concentrate on bringing this energy cartel to justice.

[The prepared statement of Hon. Bob Filner follows:]

PREPARED STATEMENT OF HON. BOB FILNER, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF CALIFORNIA

Mr. Chairman and Colleagues, thank you for this opportunity to testify about the ongoing electricity crisis in the western United States. I would like to thank you, Mr. Chairman, for following this issue since last summer when you convened a special hearing of this subcommittee in San Diego, California. At that point, only San Diego was affected and I testified that this was a harbinger of things to come.

San Diego was the first region to be affected by this so-called deregulation crisis because retail electricity rates were uncontrolled and in the space of one month,

rates doubled. Another month passed and rates were triple what they had been just two months earlier.

This situation became a California crisis when two utility companies became overburdened with debt due the difference in the wholesale price they paid for power and the retail rates they were allowed to charge their customers.

This situation became a regional problem when the supply of electricity to the states of Oregon and Washington was reduced and rates were increased. Now, Oregon and Washington were forced to join California in paying more for less electricity. It appears that other states, such as Idaho and New Mexico have been or soon will be affected.

This situation has now become a national problem and it is imperative that this Congress, this Presidential Administration, its Justice Department and its Federal Energy Regulatory Commission (FERC) must act immediately to stop the abuse, the exploitation that is being perpetrated upon the American people.

This Congress must act now, by immediately approving my legislation H.R. 268, the Electricity Consumers Relief Act of 2000. This legislation would require that the Federal Energy Regulatory Commission set cost-based rates for electricity if it makes the legal finding that wholesale rates are "unjust and unreasonable." The FERC made that finding in a report issued last November. In addition, my legislation would require that the energy producers and marketers that profited from these illegal rates be required to provide restitution for their ill-gotten gains to western region consumers.

This Administration must act immediately by ordering its two agencies, the Justice Department and the FERC, to comply with their mandates to protect the American public. The FERC is mandated to ensure that rates are "just and reasonable," and the Justice Department is mandated to ensure that the electricity cartel is operating in compliance with our laws.

The FERC has already found that rates are "unjust and unreasonable"—therefore illegal, but it has refused to act.

Just last week, the California Independent System Operator (ISO) released a report in which they found that California ratepayers were overcharged by the electricity cartel \$562 million over a two-month period. That is half a billion dollars in just two months! In addition, the ISO found that two-thirds of the costs charged by the electricity cartel in January 2001 were "excessive."

We have been told that the problems in the western region were simply a matter of "lack of supply to meet an increasing demand." If this were true, then why are rates higher in the winter when demand was one-third less than last summer? The electricity cartel blamed the lack of supply on plant closures for "routine maintenance." I find it hard to believe that it was necessary to shut down 25-33% of our electrical generating capacity for "routine maintenance."

Well now, there is evidence that shutting down electrical production was to create a "shortage" of electricity was simply another example of unethical and criminal behavior on the part of the electricity cartel. And I believe it is imperative that the Justice Department uses all of its powers to investigate what is criminal fraud and negligence by the electricity cartel.

A couple of days ago, the San Diego ABC-affiliate, KGTV Channel 10, ran a story in which the plant manager of the Duke Energy plant in my district admitted that its largest turbine, Generator #4, was removed from service 50% of the time during the recent Stage III alert in California. Let me repeat, during our 32 days of Stage III alert in California, this plant removed from service its largest turbine 50% of the time! This meant that 222 Mw of power was shut down *for no good reason!*

In addition, the Duke Energy plant completely shut down its second largest generator during the entire 32 days of Stage III alert. To make matters worse, as soon as the Stage III alert was declared, the output of a generator that was in operation was *reduced* by 12 Mw.

The Stage III alert caused severe disruptions to businesses and families in San Diego. Workers at the Kyocera plant, the National Steel & Shipbuilding Company (NASSCO) were sent home—without pay—and their family life was thrown into turmoil because we had a "power shortage." It turns out that we had no such power shortage—in fact, we had power to spare. Yet prices continue to skyrocket, causing small businesses to fail, forcing senior citizens to choose between heating their homes and purchasing food, and gouging all consumers with the artificially inflated cost of electricity.

Mr. Chairman, it is imperative that all of us—Congress, the Administration, Justice Department and FERC—comply with our mandate to protect the public! FERC must immediately set cost-based wholesale rates and launch an investigation into this apparent price-fixing and market manipulation. The Justice Department must investigate and bring charges against the electricity cartel for criminal fraud and

anti-trust violations. And our Congress must act to hold the cartel accountable and to provide the relief that Americans so desperately need and deserve.

Thank you for allowing me the opportunity to address you today and I look forward to working with this panel to protect and serve the American public.

Mr. BARTON. We thank you, Congressman Filner. We will put you down as undecided on the cause of the problem in California.

Mr. FILNER. Was that a question? Do I have another 5 minutes, sir?

Mr. BARTON. I am going to go to the gentlelady from California, a member of the subcommittee, Congresswoman Bono. Your statement is in the record in its entirety. We recognize you for 5 minutes to summarize it.

**STATEMENT OF HON. MARY BONO, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF CALIFORNIA**

Ms. BONO. Mr. Chairman, thank you for agreeing to hold this important hearing on California's continuing energy crisis. It is comforting to know you are ready and willing to assist our State in this time of need.

As you well know, over the past decade this committee and our government have been focused on the new economy. The high-tech revolution has dominated our agenda while the old economy, like electricity and other energy concerns, have been put on the back burner. It is becoming abundantly clear that you need the old economy to run the new economy.

Despite numerous warnings from those in the industry, our country refused to develop a sound policy that addressed both the generation and transmission of energy. Even after the energy crisis of the 1970's, our country was focused on short-term solutions rather than long-term planning. The State of California embarked on a deregulation plan which, as we have heard often, had several shortcomings. Combined with uncooperative weather and increased use in neighboring States, California was faced with the worst possible scenario.

Further complicating this problem was the fact that even the basic economic laws of supply and demand were left unconsidered. Our State did not build any substantial new power plants the last decade, and just as importantly, since 1975, studies indicated that annual utility investments in the U.S. power transmission system have fallen by more than half.

Now, due to this lack of a dependable supply, we in California are faced with the nearly inevitable situation of rolling blackouts. In the month of July, temperatures in the city of Coachella average 106 degrees; during the summer we even top off at 120 to 126 degrees. Make no mistake, with temperatures this high, blackouts are not a question of quality of life; rather, they can be a matter of life or death.

Therefore, we must confront two critical issues, the price of energy and the availability of energy. According to the 1990 census, the median household income for California's 44th Congressional District was \$29,000. A family of four who earns about \$2,500 a month before taxes cannot afford an electricity bill of \$500 to \$600 a month during the summer.

While we choose to live in this climate and realize the cost of cooling our homes will be higher than in other parts of the State, there comes a point when these costs become unrealistic. As we attempt to understand what brought about these increases on the wholesale market, we must again turn toward California's flawed effort at deregulation.

With the California Power Exchange offering suppliers the highest market clearing price and not the actual bid, we saddled ourselves with unnecessary cost, and despite FERC's December 15th order to change its methodology, the PX continued with its practice. Undoubtedly, the loss system set up by the State of California fed this vulture culture we have witnessed on the wholesale markets.

But even more critical this summer will be the availability of power. While I applaud the Governor's efforts to bring on generating facilities as soon as possible, I wonder whether or not these facilities indeed will be ready by this summer and whether or not the State will have the capacity to transmit this new power. If not, I am deeply concerned as to our state of readiness to handle an emergency such as the one we might be faced with.

The transmission of power is also of major importance. In fact, two of California's recent rolling blackouts were blamed on the bottleneck at Pad 15, a 90-mile transmission corridor linking the northern and southern sections of the State's power grid.

The inability to shift power within our own State is very disconcerting. We should work on finding a means to encourage capital spending on the grid. If utilities are allowed to receive a higher rate of return on transmission investments, we can make great strides in shoring up this foundation.

But while we work to rebuild our ability to generate and transmit energy, part of the short-term solution lies in our ability to conserve energy. I commend the Governor for embarking on an aggressive conservation effort. California is second only to Rhode Island in per capita electricity use. Still, I think we have the ingenuity and determination to improve further on this effort.

However, the full bounty of any conservation effort will not materialize unless consumers are sent nominal price signals. We cannot continue to live in a world of smoke and mirrors while shifting costs along in another manner. Sooner or later, the bills will catch up with us.

While the merits of price control State ownership of transmission lines are being debated, the truth remains that neither adds a single megawatt of power to the grid. Only by encouraging an increase in supply, can the affordability of price and the consistency of service improve.

Mr. Chairman, while this hearing is focused on the electricity crisis in California, I would also like to commend you for having the foresight to conduct a hearing last week on the national shortage of natural gas. Since most new generating facilities in California are gas powered, the gas shortage is inevitably tied with our ability to power our State. It is my hope that we do not ignore the difficult choices our country must make to provide a dependable source of natural gas.

It would seem then that we have many angles to address—price, availability of electricity and natural gas, and the transmission of both these sources of energy. As we move forward to face this challenge, I am heartened by the fact that our country and our State have consistently risen to the task. If we have the courage to make the difficult choices today, we can pave the way for a successful and prosperous future.

Now, I am going to take a breath. Thank you, Mr. Chairman.
[The prepared statement of Hon. Mary Bono follows:]

PREPARED STATEMENT OF HON. MARY BONO, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF CALIFORNIA

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A family of four who earns around \$2,500 a month before taxes cannot afford an electricity bill of over \$500 to \$600 a month during the summer. While we choose to live in this climate and realize the cost of cooling our homes will be higher than in other parts of the state, there comes a point when these costs become unrealistic.

As we attempt to understand what brought about these increases on the wholesale market, we must again turn towards California's flawed effort at deregulation. With the California Power Exchange offering suppliers the highest market clearing price, and not the actual bid, we saddled ourselves with unnecessary costs. And despite FERC's December 15 order to change this methodology, the PX continued with this practice. Undoubtedly, the lawful system set up by the State of California fed this "vulture culture" we have witnessed on the wholesale market.

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As we move forward to face this challenge, I am heartened by the fact that our country and our state have consistently risen to the task. If we have the courage to make the difficult choices today, we can pave the way for a successful and prosperous future.

Mr. BARTON. Thank you, Congresswoman.

Congressman Inslee, we had a spot for you at the dais, and since you weren't here, we let Mr. Issa take it. If you will squeeze in, we will give you a chance on this panel.

We are trying to go by seniority and by members of the committee. It is going to be confusing. I think Mr. Radanovich would be the next and then Mr. Sherman, Mr. Inslee, and then Mr. Istook.

Mr. Radanovich, your statement is in the record in its entirety. You are recognized for 5 minutes.

STATEMENT OF HON. GEORGE RADANOVICH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. RADANOVICH. Thank you, Mr. Chairman, and again, thank you for holding this hearing today and for also coming out to California a couple of weeks ago to get apprised of our situation.

The California Central Valley district that I represent has experienced both rolling blackouts and the beginnings of rate increases which will affect us for years to come. The California electricity disaster is not behind us; the worst is yet to come. The State of California continues to hemorrhage while we are transfusing blood into the victim, but we have not yet done what is necessary to stop the bleeding at its source.

To describe this crisis simply as a rare one-time event or a perfect storm is also to fail to recognize that California and the rest of the Nation have serious and fundamental problems in our energy policy. For government officials to say that they did not or could not see the storm coming is to deny their responsibility in this disaster.

There are many warning flags in the record to show that responsible officials should have been aware of the forces of increasing de-

mand for energy and restrictions on the supply of energy were to clash at a price point that was unsupportable. Past low natural gas prices may have postponed the day of reckoning and recent low-water years may have accelerated that day, but the day was inevitable.

The California electricity disaster was preventable under a different public policy. A more rational energy policy of encouraging supplies to meet demand at low prices instead of a policy of restricted supplies at high prices to limit demand the answer. The root cause of the failure was the unwillingness of government officials to admit and explain that policies have price consequences. For example, encouraging conservation requires higher and higher energy prices to encourage more and more savings.

California is already the second lowest energy per capita consuming State in the Nation, and no doubt will be the lowest once more industry leaves the State because of high energy prices. Clean air is an important goal, but it requires the investment in technologies that add to the cost of producing energy. Economics dictate if we do not allow the construction of new facilities, the increasing competition for the existing resources makes them more valuable.

California regulators have for decades taken advantage of strategies to delay the unacceptable cost impacted on consumers of these policies. These strategies have included eating into the generation reserves to satisfy demand for new capacity, gambling on the hope of low spot market prices, depending on out-of-State resources that have competing demands, and delaying rate impacts through the use of artificial consumer rates.

The most recent failed strategy was to hope that deregulation would provide lower prices forever. Deregulation is an essential tool for the eliminating and avoiding of unjustified costs, but does not control the price point. Under deregulation, pricing will settle high or low depending on the policy that affects the availability of supply.

So where do we go from here? I was happy to hear the States of Pennsylvania and Ohio understand that successful deregulation requires extensive citizen involvement and effective government deregulators that constantly monitor the markets so that appropriate mid-course corrections are taken in a fairly timely manner. I was also happy to hear that they understand that sustainable low energy prices are a result of abundant supplies and not of deregulation itself.

In California, I hope we have also learned the very important lesson about price volatility in both the gas and electricity markets and that consumer protection from that volatility is essential. It is unacceptable to pass on all the market risk to consumers, who are in no position to mitigate much of that risk.

Unfortunately, the California PUC put energy consumers in the same position as those who choose to live without health insurance. As long as you don't get sick, it is the lowest cost approach. But when you do get sick, you face enormous bills. Adequate consumer protection could have been provided in the deregulated model by requiring that consumers be required contracts with terms of either a fixed price for some period of time, or at a variable price with escalation caps, as much as mortgages are purchased at fixed rates

or adjustable rate mortgages, and prior notification of price changes. If these consumer protections had been required in California, I believe the utilities, energy marketers and the new producers would not have accepted the flawed restructuring scheme that was put in place.

These market participants also would have then been motivated to reduce their risk so as to gain market competitiveness by building new power plants, encouraging demand management and diversifying the energy mix.

Unfortunately, California seems to have fallen back on the regulated model, which previously failed to protect consumers as the only way to provide consumer protection. The serious flaws of the regulated model, where an inefficient bureaucratic planning agency determines the marketplace, have been temporarily forgotten, until we are forced to relearn them.

I would ask for additional minute, if I may.

Mr. BARTON. If you can make it a quick minute.

Mr. RADANOVICH. Sure.

I am encouraged by the actions of Governor Davis and President Bush to expedite the permitting of new power generation and transmission facilities in California. This indicates that the Governor also understands the true answer to the consumer's need for energy at reasonable cost lies primarily with an increasing supply. However, expedited permitting must produce results and not become a faster process for regulators to simply say no.

It is also important to understand that building a large number of gas-fired power plants will not bring down the cost of energy unless there is an ample supply of inexpensive gas to fire the plants. The United States must aggressively and responsibly develop its own gas resources to assure a low-cost supply. There is an arrogance in the view that it is acceptable to develop the gas resources off the coast of Sable Island in Canada to meet the needs of New England, but it is not acceptable to develop the same resources off our own coast. If ANWR were located in Canada, would it be equally environmentally concerned? We must develop our own resources in an environmentally responsible way and not take undue advantage of other countries to meet our domestic needs.

Thank you, Mr. Chairman, for your interest in the issue. I look forward to this hearing.

[The prepared statement of Hon. George Radanovich follows:]

PREPARED STATEMENT OF HON. GEORGE RADANOVICH, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF CALIFORNIA

Thank you, Mr. Chairman, for holding this hearing today on the electricity disaster in California. The California Central Valley district I represent has experienced both the rolling blackouts and the beginnings of rate increases, which will affect us for years to come.

I speak today on behalf of the consumers in my district who recognize that they are the ones who will carry the burden of more blackouts and much higher electricity prices because of the actions, sometimes lack of actions, and decisions of government officials that led to, or at best failed to prevent, the disaster. Higher electricity prices and blackouts have a devastating impact on low and fixed income citizens. Because energy is a part of everything we do, the impact is seen not only in higher energy bills, but also in loss of jobs, higher rents, higher food bills, and higher bills generally. These bills will only grow larger either by rate increases or tax increases. We haven't seen the largest portion of this problem yet.

The Central Valley district I represent comprises the two largest agricultural producing counties in the nation. As a result, it continues to be affected by the stagnation of agricultural commodity prices over the past years. Higher bills cannot be readily passed on or absorbed.

The California electricity disaster is not behind us, the worst is yet to come. The State of California continues to hemorrhage. We are transfusing blood into the victim, but that we have not yet done what is necessary to stop the bleeding at its source.

To describe this crisis simply as a rare, one-time event, a “Perfect Storm,” is also to fail to recognize that California, and the rest of the nation, have serious and fundamental problems in our energy policy. For government officials to say they did not or could not see this storm coming is to deny their responsibility in this disaster. There are many warning flags in the record to show that responsible officials should have been aware that the forces of increasing demand for energy, and restrictions on the supply of energy, were about to clash at a price point that is unupportable. Past low natural gas prices may have postponed the day of the reckoning, and recent low water years may have accelerated that day, but the day was inevitable.

The California electricity disaster was preventable under a different public policy. A more rational energy policy of encouraging supplies to meet demand at low prices, instead of a policy of restricted supplies at high prices to limit demand, was the answer. The root cause of the failure was the unwillingness of government officials to admit and explain that policies have price consequences. For example, encouraging conservation requires higher and higher energy prices to encourage more and more savings. California is already the second lowest energy-per-capita consuming state in the nation and no doubt will be the lowest once more industry leaves the state because of high energy prices. Clean air is an important goal, but it requires the investment in technologies that add to the cost of producing energy. Economics dictate that if we do not allow the construction of new facilities, the increasing competition for the existing resources makes them more valuable.

California regulators have for decades taken advantage of strategies to delay the unacceptable cost impact on consumers of these policies. These strategies have included:

- eating into generation reserves to satisfy the demand for new capacity,
- gambling on the hope of low spot market prices,
- depending on out-of-state resources which have competing demands,
- and delaying rate impacts through the use of artificial consumer rates.

The most recent failed strategy was to hope that deregulation would provide low prices forever. Deregulation is an essential tool for eliminating and avoiding unjustified costs, but it does not control the price point. Under deregulation, prices will settle high or low depending on the policy which affects the availability of supply.

So where do we go from here? I was happy to hear from the States of Pennsylvania and Ohio that they understand that successful deregulation requires extensive citizen involvement; and effective government “deregulators” that constantly monitor the markets so that appropriate mid-course corrections are taken in a timely manner. I was also happy to hear that they understand that sustainable low energy prices are a result of abundant supplies and not of deregulation itself.

In California, I hope, we have also learned a very important lesson about price volatility in both the gas and electricity markets, and that consumer protection from that volatility is essential. It is unacceptable to pass on all the market risks to consumers who are in no position to mitigate much of that risk. Unfortunately, the California PUC put energy consumers in the same position as those who choose to live without health insurance. As long as you don’t get sick, it is the lowest cost approach. But when you do get sick, you face enormous bills.

Adequate consumer protection could have been provided in the deregulated model by requiring that consumers be provided with contracts at terms of either a fixed price for some period of time, or at a variable price with escalation caps, much as mortgages are purchased as fixed rate or as ARMs; and prior notification of price changes. If these consumer protections had been required in California, I believe the utilities, energy marketers and new producers would not have accepted the flawed restructuring scheme that was put in place. These market participants also would have then been motivated to reduce their risk so as to gain market competitiveness by building new power plants, encouraging demand management, and diversifying the energy mix.

Unfortunately, California seems to have fallen back on the regulated model, which previously failed to protect consumers, as the only way to provide consumer protection. The serious flaws of the regulated model, where an inefficient bureaucratic planning agency determines the market place, have been temporarily forgotten until we are forced to relearn them.

I am encouraged by the actions of Governor Davis and President Bush to expedite the permitting of new power generation and transmission facilities in California. This indicates that the Governor understands that the true answer to the consumers need for energy at a reasonable cost lies primarily with increasing supply. However, expedited permitting must produce results, and not become a faster process for regulators to simply say "No."

It is also important to understand that building a large number of gas fired power plants will not bring down the cost of electricity unless there is an ample supply of inexpensive gas to fire the plants. The United States must aggressively and responsibly develop its own gas resources to assure a low cost supply. There is arrogance in the view that it is acceptable to develop the gas resources off the coast of Sable Island, Canada to meet the needs of New England, but that it is not acceptable to develop the same resources off our own coasts. If ANWR were located in Canada, would we be equally environmentally concerned? We must develop our own resources in an environmentally responsible way and not take undue advantage of other countries to meet our domestic needs.

In summary, a lesson of the California electricity disaster is that our energy policy must focus on meeting the energy needs of America's consumers at a reasonable cost. We must provide the consumer adequate protection from higher and higher prices by developing all of our energy resources in a responsible manner.

Mr. Chairman, there are things the Federal government can do now to help California start immediately on the path to correct the fundamental problems instead of compounding the problem. I have developed and propose for your consideration the attached letter to the Governor offering to assist wherever it is feasible to resolve the California crisis. However, we must be asked to provide the assistance, as clearly this crisis requires a largely State initiated solution.

Thank you again Mr. Chairman for interest in this issue and holding this hearing. I look forward to working with you in developing a national energy policy for the benefit of our Nation.

Mr. RADANOVICH. I also have a letter to Gray Davis on possible ways that the Federal Government might be able to help in this if he is so inclined to ask. I would like to submit that for the record.

Mr. BARTON. Without objection.
[The letter follows:]

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.
March 3, 2001

The Honorable GRAY DAVIS
Governor, State of California
Sacramento, CA 95814

DEAR GOVERNOR DAVIS: I am writing to discuss the California energy situation. The fundamental problems that led to the California electricity disaster cannot be corrected with simple, quick, crisis driven actions which avoid or postpone the more difficult decisions that are also necessary. Addressing the fundamental problems will require constant hard work, attention, openness, and reporting for several years to come. An extraordinary, expedited process must be implemented now to bring together all the parties, especially consumers, to a common table to establish a comprehensive plan of action and make sure it is implemented successfully. I encourage you to involve consumers especially so they understand and agree with the future vision for meeting electricity needs in California, what it will cost, and how it will benefit them. As you know, time is of the essence.

The federal government can participate beneficially, in a collaborative and expedited manner, in such an extraordinary process. For the near-, mid- and longer-terms, until the situation is fully corrected, it can assist by providing:

- enhanced market monitoring to prevent abuses;
- a third party view of the reasonableness of proposed bilateral contracts to spur negotiations;
- coordination of federal reviews of power generation facilities to expedite permitting and construction;
- expertise to identify and correct the flaws in the current restructuring scheme to help California establish an effective path to the future;
- accelerated input on its designs for a Regional Transmission Organization (RTO) in the West, including California, to establish a more effective wholesale market;

—expedited analysis of Path 15 and other transmission “bottlenecks” to maximize the flow of lowest cost power;
 —anticipatory FEMA assistance, until adequate electricity supplies are brought online, to reduce the impact of brownouts and blackouts.

I will work with you to help obtain this federal participation and assistance in setting California on an effective path to a future of low-cost and abundant electricity for its citizens. Thank you for your attention to this pertinent matter.

Sincerely,

GEORGE RADAVOVICH
Member of Congress

Mr. BARTON. The gentleman from California, Mr. Sherman. Your statement is in the record. You are recognized for 5 minutes.

STATEMENT OF HON. BRAD SHERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. SHERMAN. Thank you, Mr. Chairman, for holding these hearings. I want to commend my colleagues from California. They have presented much useful information that I will try to avoid repeating. I agree with most of what they have said on both sides of the aisle.

I would point out that this was a crisis that the smartest people in the country did not see. The smartest people on Wall Street were not selling PG&E or SoCal short, and the executives for these two large utilities were not objecting to the structure of the situation as recently as a year ago. This caught a lot of us by surprise.

This problem is perhaps greater—

Mr. BARTON. Congressman Inslee, you might want to go down there where that microphone is.

Mr. SHERMAN. I will miss you.

Mr. BARTON. I am sorry.

Mr. SHERMAN. The problem is perhaps greater than we realize. It could push California into a recession. That could pull the Nation into a recession.

Beyond the economics, people will die in California and the West this summer. Some will die because of crime caused by rotating blackouts. Some will die in overheated apartments without air conditioning.

This problem is not only one of electrical generation, it may also be one of natural gas supply in California. I do not think that we will have a supply crisis nationwide, but in California, we use natural gas to generate electricity, and we may not have enough of it to even fire up the limited number of plants that we have.

I am here to support one small step toward conservation which will be the least controversial thing Congress could do to help this crisis, and the quickest thing that Congress can do, and that is to allow California and other Pacific time zone States to adjust daylight saving time in order to conserve energy. I ask this committee as quickly as possible to have a markup on H.R. 704, a bill I proposed to this Congress roughly a month ago—actually less than that—and which has cosponsorship from such diverse members as Mr. Filner and Mr. Doolittle.

What this bill would do is simply allow California to alter its daylight savings time and allow other Pacific States to do the same. This is in response to a resolution passed by the California legislature last year asking for this freedom. I think people on both

sides of the aisle will believe that we ought to let the Federal Government allow California to respond to this crisis.

My own suggestion to the State government is, if this power is available, we should go to double daylight saving time from May 1st until Labor Day. This is a period of time when even if we were on double daylight savings time, it would be light at 7 a.m. in the morning. It is also a period of time when children are not going to school except during May, when, as I say, it would be lighten well before 7 a.m., and it is the period of time when we are going to face the greatest energy crisis since the electrical availability crisis will be greatest when the days are warmest.

The other States in the Pacific time zone are given the same freedom, first because they also have an energy crisis that they share with us, and second, because many of these States want to remain in sync with California, and that is perhaps why the bill is cosponsored by Shelley Berkley of Nevada.

Now, daylight saving time will save between 1 and 2 percent of our energy. This is as a result of a recent study done by the California Department—California Energy Commission and is consistent with quite a number of studies done by the U.S. Department of Transportation. As a matter of fact, daylight savings time was initiated for the purpose of saving energy during World War I and has been reemployed several times during other energy crises such as World War II and the 1970's.

In addition to the reduction in energy usage, that energy usage reduction will take place just at the right time; that is to say, roughly between 5 and 7 in the evening or 5 and 8 in the evening when energy demand is at one of its peaks during the day. This is because when people go home, they will not have to turn on all the lights in their home in order to make it light; they need simply raise the curtain. It is when people first begin arriving home when homes are operating and using electricity and businesses are still open using electricity as well. It is one of the times we need to reduce energy usage.

In addition, studies show, including a 1975 study from the Department of Transportation, that daylight saving time of this type would reduce crime and that it would reduce traffic accidents as well.

I would hope that this committee would move forward as quickly as possible on what, as I mentioned before, would be the one thing I think we could do that is noncontroversial and we can do quickly. Thank you.

[The prepared statement of Hon. Brad Sherman follows:]

PREPARED STATEMENT OF HON. BRAD SHERMAN, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF CALIFORNIA

Mr. Chairman, thank you for giving me the opportunity to testify before the subcommittee this afternoon.

We all recognize that the crisis facing California is a complex problem that no single action will resolve. I would like to discuss one step Congress can take to give California an additional tool with which to combat this crisis: authorizing California to adjust its time to conserve energy.

H.R. 704—THE EMERGENCY TIME ADJUSTMENT AUTHORIZATION ACT

Last year, the California State Legislature passed Assembly Joint Resolution (AJR) 56 asking Congress to permit California to move immediately to daylight sav-

ing time (DST) in order to help solve the energy crisis. Congress has yet to act. California State Senator Betty Karnette has reintroduced the resolution during the current legislative session and she asked me to introduce legislation at the federal level to allow California to lengthen daylight saving time.

H.R. 704, the Emergency Time Adjustment Authorization Act (ETAAA), which I introduced on February 14, 2001, would authorize California and the other Pacific Time Zone states to adjust their time if the State Legislature of a State finds that an adjustment would lead to energy reduction. If one State makes a finding that an adjustment would lead to energy reduction and adjusts its time, the other States in the time zone could make an adjustment without making a similar finding. The bill extends this authority to the Pacific Time Zone states until December 31, 2003.

Mr. Chairman, as Congress considers H.R. 704, there are a number of important points to remember about the bill: (1) H.R. 704 does not require California or the other States to make adjustments to their time; (2) it does not mandate what adjustment the States must make; (3) the bill is temporary in nature, to allow California to deal with the crisis at hand; (4) historical and contemporary analyses of the effects of daylight saving time indicate that extended daylight saving time does indeed save significant energy, in addition to other ancillary benefits. In short, it gives a temporary authorization to the California and the other western states to adjust their time to deal with a very specific problem.

H.R. 704 Gives the Authority and the Responsibility to the State Legislatures

The President has indicated that the energy crisis is a State issue which demands a State response. H.R. 704 does not require California or the other States to make adjustments to their time. Rather, the bill authorizes the States to adjust their time if they make a finding that such an adjustment would "help alleviate the energy crisis."

H.R. 704 gives the State legislature a tool it needs to address the energy crisis, specifically, the authority to adjust the time in a manner which benefits the state the most. The State legislature is the appropriate body to consult with the transportation authorities, broadcast corporations, school districts and other interested parties in the State regarding the adjustment of time.

There is No Congressional Mandate for Action

The Emergency Time Adjustment Authorization Act authorizes action; it does not require it. The Legislature has asked for this authority, so it is likely that they would use this authorization. By granting the authority without giving the State a mandate, the bill provides California with the tools to ease the burden. The bill opens the doors for action; it does not tell California which door to walk through.

My suggestion to California is double daylight saving time—standard time plus two hours—from May 1 to Labor Day. Under this plan, it will be light by 6:52am during the school year and well before 7:30am in the August and pre-Labor Day period. Also, the warm Summer months are when we will have the greatest electrical shortage.

The Authority to Adjust the Time is Temporary and Specific in its Rationale

The authority that the bill grants to the States is temporary and its purpose is limited in nature. The bill gives the States the authority to adjust their time until December 31, 2003.

Other Pacific Time Zone States

H.R. 704 gives other Pacific Time Zone States the same authority as California. These states face many of the same electrical shortages as California. Even if they did not, some Pacific Time Zone States may feel the need to keep time with California. I am pleased that Representative Shelley Berkley of Nevada is a co-sponsor of my bill.

BRIEF HISTORY OF THE EFFECTS OF DAYLIGHT SAVING TIME

Mr. Chairman, throughout the history of daylight saving time, Congress has adjusted daylight saving time to conserve energy in times of crisis. The energy crisis that grips California calls for this unusual, but not unprecedented, step to ease the burden on the California power grid.

When daylight saving time (DST) was first enacted by Congress in 1918, its purpose was to conserve resources for the war effort. During World War II, the United States observed daylight savings time year-round from 1942 to 1945 for the same reason. And, in the 1970's, Congress extended daylight saving time in response to various energy crises.

Following the extension of daylight saving time in 1974, Congress directed the Department of Transportation (DOT) to conduct a study on the effects of the extended daylight saving time. The DOT study released in 1975 made a number of conclusions. The following list is not inclusive of the entirety of the report's conclusions.

- **DST saves energy.** DOT estimates that observing DST in March and April saved the equivalent in energy of 10,000 barrels of oil each day—totaling 600,000 barrels each year in 1974 and 1975.
- **DST saves lives and prevents traffic injuries.** DST allows more people to travel home from work and school in the daylight, which is much safer than darkness. And, according to the DOT report, except for the months of November and December, DST does not increase the morning hazard for those going to school and work.
- **DST prevents crime.** Because people get home from work and school and complete more errands and chose in daylight, DST seems to reduce people's exposure to various crimes, which are more common in darkness than in light.

DST Saves Energy

DST saves energy because it alters the time at which demand for electricity is at its peak. One of the peak demand periods for electricity occurs between 5pm-8pm, when the sun sets and people come home from work. As people come home from work, their first inclination is to turn on a light. If people come home and it is light outside, there is less of an inclination to turn a light on. But pushing the sunset back one hour does not save the energy alone. Energy savings is realized because even with the time adjustment, people tend to go to sleep at the same time under daylight saving time as standard time. And, in the morning, whether it is light out or not, lights are turned on. People get ready for work and school. And, it takes the same amount of time to get ready to go to work or school under daylight saving time as it does under standard time.

Data analyzed by the DOT and the California Energy Commission (CEC) support the claim. The 1975 DOT report estimated that year-round DST resulted in approximately 1% reduction in energy consumption.

In response to the resolution passed by the California Legislature and the introduction of H.R. 704, the California Energy Commission (CEC) is reviewing data on the conservation benefits of daylight saving time. The following information is preliminary and the final review should be completed in the very near future.

- According to CEC econometric analysis, DST would save California about 500 MWh in the Spring months.
- Results of the CEC study on DST's ancillary benefits during the Spring months are consistent with the 1975 DOT report.

DST Saves Lives and Prevents Traffic Injuries

DST saves lives and prevents traffic injuries. DST allows more people to travel home from work and school in the daylight, which is much safer than darkness. And, according to the DOT report, except for the months of November and December, DST does not increase the morning hazard for those going to school and work.

The 1975 DOT report states that "after the nation goes on DST there is one hour more of darkness in the morning and one hour less in the evening." The DOT hypothesized that there should be an increase in morning fatal accidents and a decrease in evening fatal accidents. Since there are more fatal events in the evening, DST should produce a net decrease in the total number of fatal accidents.

According to the report, as a result of DST, there was a net reduction of .7% in fatal motor vehicle accidents during the DST period, March and April 1974, compared to the non-DST period March and April 1973. It is estimated that 50 lives were saved and 2,000 injuries avoided during this two month period as a result of DST.

The report found DST negatively effected the rate of school children fatalities in November and December only. In fact, the report demonstrated that DST reduced the number of school children fatalities by between 18%-40% in March, April and October 1974.

DST Prevents Crime

The 1975 DOT study included the results of a study that was conducted on Los Angeles and Washington, DC by the Law Enforcement Assistance Administration (LEAA). While the data on Los Angeles were inconclusive, the Washington DC data show consistently less violent crimes (-10%—20% difference) for DST periods when compared with similar periods of standard time. Statistics on other crimes were less significant and less reliable.

AVERAGE SUNRISE AND SUNSET TIMES

The following chart describes the average sun rise and sun set times in Los Angeles for year-round Standard Time (ST), year-round Daylight Saving Time (DST) and year-round double Daylight Saving Time (DDST). Bold indicates the average sun rise and sun set under current law. The average time does not take into effect the effect of partial DST in April and October. The table treats April and October as being on DST the entire month.

Average Sunrise and Sunset Times for Standard Time, Daylight Saving Time and Double Daylight Saving Time

Month	Sun Rise (ST)	Sun Set (ST)	Sun Rise (DST)	Sun Set (DST)	Sun Rise (DDST)	Sun Set (DDST)
January	6:57am	5:08pm	7:57am	6:08pm	8:57am	7:08pm
February	6:38am	5:36pm	7:38am	6:36pm	8:38am	7:38pm
March	6:02am	6:01pm	7:02am	7:01pm	8:02am	8:02pm
April	5:22am	6:24pm	6:22am	6:24pm	7:16am	7:24pm
May	4:52am	6:48pm	5:52am	7:48pm	6:52am	8:48pm
June	4:42am	7:05pm	5:42am	8:05pm	6:42am	9:05pm
July	4:53am	7:04pm	5:53am	8:04pm	6:53am	9:04pm
August	5:15am	6:38pm	6:15am	7:38pm	7:16am	8:38pm
September	5:37am	5:59pm	6:37am	6:59pm	7:37am	7:59pm
October	5:59am	5:19pm	6:59am	6:19pm	7:59am	7:19pm
November	6:26am	4:50pm	7:26am	5:50pm	8:26am	6:50pm
December	6:51am	4:46pm	7:51am	5:46pm	8:51am	6:46pm

CONCLUSION

Mr. Chairman, giving California the option to adjust the time in California will not by itself solve the energy crisis, but it will help. I hope you will act soon on H.R. 704 which already has 14 bipartisan co-sponsors from California and Nevada. I thank you for the opportunity to testify on this important issue.

Mr. BARTON. We thank you. We will look into that. When Congressman Boucher, the ranking Democrat gets here, we will check with him. It looks like an idea whose time may have come. We will work on that.

We now recognize the gentleman from Washington State, Congressman Inslee. Your statement is in the record. You are recognized for 5 minutes.

**STATEMENT OF HON. JAY INSLEE, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF WASHINGTON**

Mr. INSLEE. Mr. Chairman, Members, thank you for letting me join you.

I am here to report two disasters out in the Seattle neck of the woods where I hail from. First, as of you have heard about, the 6.8 earthquake in Seattle last week. I want to report to you the Federal Government has done a good job responding to that natural disaster. FEMA is there on the job trying to deal with people's problems. Things are okay with the earthquake when it comes to the Federal Government.

But in the energy price disaster, these obscene price hikes we have seen which are driving people to food banks, which are taking people's jobs, which have the potential to ripple through the whole U.S. economy and drive us over the brink—the cliff potentially of recession—the Federal Government has been a pathetic disaster in itself in refusing to come to the aid of the West. It has done so despite the fact it has got a tool at its disposal. Short-term wholesale, cost-based electrical Western energy caps that we ought to adopt

in short order in this country to prevent that disaster from occurring.

To me, it is remarkable, the difference in the Federal Government that has helped so well in our earthquake and so poorly in the larger-scale disaster of these electrical rates; and it boggles my mind why that has been taken off the table, Mr. Chairman, and I will tell you why.

The rate hikes that we have seen that people are experiencing are unprecedented in the U.S. economy. People are experiencing residential rate increases of 50 percent already, and they could go to 80 to 100 percent this year. I will give you a sample of three conversations I had last week.

I went to the food bank and talked to people who were working two jobs. They have never been in a food bank before, but by gum, they are there now because of these energy prices have spiked so high.

I talked to a fellow on a ferry boat whose uncle was losing a job as a longshoreman because the aluminum industry is going to heck in a handbasket because of these enormous price hikes.

The third and perhaps most disturbing to all of us are the words of Alan Greenspan when he testified last week at Financial Services, who pinpointed these energy prices as one of the greatest danger signals to the U.S. economy. This is a national problem, not just a Western United States problem, and the Federal Government has failed to act.

Now, what can they do? FERC at this time has a congressionally established plan already. The tool is already in the Federal toolbox. The tool says that if you have got unreasonable prices, FERC can establish some meaningful short-term wholesale price tariff so you have a cost-plus profit system in this country on a short-term basis. This is already law, and the administration, to date, failed to even consider it.

How should you do it? Let me tell you why the administration has been loath to even consider this to date. They have been concerned that it would end up being a long-term rather than a short-term price cap. I think that is a legitimate concern, and we can establish a price cap that is limited either as to a specific time, No. 1, or to a trigger mechanism which will have the cap expire when certain conditions exist. For instance, it has been suggested that we have the cap expire when utility reserves get to a certain level. We can deal with this to make sure it is short term.

The second criticism of this proposal has been it will be a disincentive for the creation of new generating capacity. That also is a legitimate issue, but we deal with that very simply by this: We exempt new generating capacity from the price cap. We exempt it, or we exempt long-term contracts. There are many ways to deal with this price cap.

But I will tell you what we believe we need right now. The whole U.S. Economy and the people I represent are going to food banks because of their energy prices. We need the administration to sit down in a bipartisan fashion to fashion a wholesale short-term price cap which will not be a disincentive for the creation of new generating capacity, which will have some means to make sure it

is short term, to act as a circuit breaker for what is going on in the U.S. economy. We just need a circuit breaker.

I am also here to tell you this is not the panacea to our energy problems. But to relieve these small businesses suffering on a short-term basis, it is necessary, if you don't want to see this economy continue to go downhill.

I encourage you all to join us. I have sent a letter today with 25 Members asking the administration to discuss this with us. It does not take legislative action. It simply needs the administration to take a look at how severe this problem in the West is and get a little bit creative on how to deal with the problem.

Thank you, Mr. Chairman.

Mr. BARTON. We appreciate your input.

We would like to hear from Congressman Issa. I apologize for saying Issa; I am told it is Issa. Your statement is in the record. You are recognized for 5 minutes.

**STATEMENT OF HON. DARRELL E. ISSA, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. ISSA. Thank you, Mr. Chairman. For the record, Rush Limbaugh is getting it wrong too. It is the nature of a name like mine. Since you have been so kind as to put my entire statement into the record, I will not read from it nor repeat it.

I would like to urge this body to think federally, to think long-term. First of all, deregulation has not been proven to be a failure because California has not had deregulation. Second of all, for deregulation or any other free market system to work, you must tear down barriers to entry. California did not do this.

It takes so long to get a permit and, in fact, self-help permits, what is normally called "distributed power" has been all but prohibited in California. So between the long times necessary and a grid which was closed to many of the potential 10 or less, sometimes even more, 15 or 20 megawatt producers, by closing that, they in fact closed a huge amount of supply. I believe that this body can easily get caught up in what is both the administration's job and, in fact, the State of California Governor's and legislature's job.

One of those problems is in fact to deal with the production of energy and in fact to look at its own internal regulations that have been barriers to entry. California today imports electricity. Much of that electricity directly or indirectly comes from non-natural gas, fossil fuel production. It comes from hydroelectric, something which California has been in fact reducing by determining that in hydroelectric versus fish, the fish win. That is not wrong—not that preserving the environment is wrong, but buying power from other States, so that in fact you shift that which you are not willing to do in your own State to other States, is a mistake.

States which produce clean coal in fact are supplying electricity directly or indirectly to California, a State that essentially, other than the limited amount of nuclear and a limited amount of hydroelectric, allows only natural gas.

Today, with the shortage of natural gas as we bring on power, we are faced with an absence of sufficient natural gas. There is sufficient natural gas around the world if we had the willingness to

bring in liquefied natural gas. California has not been willing to, and I do not expect them to.

The present natural gas generators without scrubbers typically put out about 15 parts per million of the prohibited pollution, while diesel and other liquid distillates put out about 25. In many parts of the country, those generators, which are not allowed to be operated here, are operating. Around the world, those that are not allowed to operate here are operating. California has taken an attitude that its air must be clean while in fact it is polluting other parts of the country.

This is not to disparage my own State. I live in a wonderful State and one that shows a lot of promise for the future in leading the country. However, if you in fact were to encourage price caps to be on for a long length of time, in all fairness to my colleague, it is one thing to limit the price of water right after an earthquake, but a year later, if no one has dug a well, it is not fair to keep that price artificially low.

California has had artificially low prices for a long time. In fact, I would propose, in addition to legislation which my office is working on, to free up the ability to have distributed power, thus alleviating some of the demands on the grid. It will be easier in California.

I would suggest certain other ideas which our office has been working on. Energy self-sufficiency could include Federal buildings within California providing their own distributed power, something that circumvents the State's willingness to do that, and military installations which have been barred from producing their own power.

I have spoken with several of the base commanders. They are certainly willing to reduce their costs and increase their likelihood of a steady supply if this body will in fact empower them to produce their own rather than buying off the economy, which has been the tradition.

Additionally, tribes such as the Pechanga Native Americans in my district are now putting in their own power generation because, in fact, they can do it, and they can do it without the limitations the State has placed.

These and other solutions are possible, but energy self-sufficiency has to be a two-way street. I encourage this body to press the State of California to participate in these solutions.

Thank you very much, Mr. Chairman.

[The prepared statement of Hon. Darrell E. Issa follows:]

PREPARED STATEMENT OF HON. DARRELL ISSA, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF CALIFORNIA

Thank you, Mr. Chairman for giving Members the opportunity to testify before your Subcommittee on a subject that is so crucial to our districts. I respectfully ask to revise and extend my remarks and that my full testimony be entered into the record.

Let me start out by expressing my appreciation for your leadership and hard work that you've shown, Mr. Chairman, on the California energy crisis. I know you have traveled to California twice in the past six months and continue to meet with all parties involved, so you already have an understanding of the complexity and the urgency of the situation.

I would like to point out some simple truths and lessons that can be learned from this experience, and then share with the Subcommittee several initiatives that I'm

working on that are a small but important part of the solution to the energy problems facing California.

We find ourselves facing a crisis today because of an historical lack of leadership and the absence of a comprehensive energy policy. From the Governor's office to the state Public Utilities Commission to the state Energy Commission, and even the state legislature, these public officials over the last two decades failed the California energy consumer. They failed to plan for the increased demand for electricity; they failed to diversify the state's energy portfolio; they failed to invest in transmission and generation capacity; they failed to provide electricity consumers with real choice; they failed when they only restructured the wholesale market while shielding ratepayers from price signals that would trigger necessary conservation; and finally, they failed to take responsibility for problems the state created this past summer. And now, nearly a year into the crisis, the state response is sluggish at best—with state officials scrambling to pursue missed opportunities and avoiding responsibility.

Rather than allowing energy consumers to see the true cost of electricity and send the appropriate price signals to conserve, state politicians continue to shift the cost to state taxpayers—spending billions of dollars to shield themselves from the political fallout. Only yesterday, Mr. Chairman, a state Senate Committee voted to extend retail rate caps through 2003, further undermining a struggling utility that is prohibited from passing the true cost of energy to its user.

Much of the state activity in resolving this issue has centered on price caps and rate freezes, and many of the Members testifying today are advocating a temporary "time out." **This is not the right answer.** Before considering a rate freeze or price cap, several objectives must be met.

First, it must be linked with a long term plan demonstrating that the supply of electricity will keep pace with demand and that the state will ensure for the proper infrastructure to achieve this plan. Second, the state must make tough choices in diversifying our energy portfolio. I applaud efforts to increase the use of renewable energy, but renewable energy is only a partial solution. Reliance on natural gas has a cost. We must take another look at nuclear energy, hydropower, and other resources. Third, California needs to do a better job of working with and coordinating with the other western states. What happens in one state dramatically affects another; in fact, ratepayers in surrounding states have seen their electricity bills increase considerably more than those in California. The West must have a single energy strategy. Finally, a deadline must be included with any freeze or cap. It must not continue indefinitely, otherwise we lose the incentive to make the tough choices we face to work through the crisis.

We all have a responsibility to roll up our sleeves and begin the hard work necessary to ensure that California and the West move towards an energy solution. It will take state, local and federal officials to work together through the regulatory, permitting and siting processes to expedite the building of new generation and transmission capacity and significant investment in improving existing infrastructure. It will take individual initiative to conserve energy and act responsibly.

While California has the bulk of responsibility and the greatest ability to respond resides with the state, there are several positive steps that the Federal government can do to help California. I have been working with Representative Heather Wilson from New Mexico in developing a legislative package to promote energy self-sufficiency. That's the message I bring to you today—energy self sufficiency. Let's empower people in California to help themselves out of this crisis. The technology exists today to allow businesses, municipalities, even individuals, to generate their own energy—to become self-sufficient—and in many cases to produce excess power, which can be put on the grid for other users. This micro-turbine and small natural gas turbine technology is clean, quiet, and efficient. It provides a solution for high tech companies that might otherwise leave the state because of concerns about the reliability of California's energy supply, and increases generating capacity while reducing the strain on the grid.

There are several artificial barriers to the proliferation of this technology. The utilities have historically resisted the move to energy self-sufficiency with high fees for connecting to the grid and technical roadblocks. The bill that I intend to introduce with Rep. Wilson will establish the right of distributed generation users to interconnect to the grid, establish national technical standards for interconnection, determine fair and reasonable costs to interconnect, include a tax incentive to purchase distributed generation units, and authorize the Department of Energy's R&D program on alternative technology. I look forward to working with this Subcommittee in moving this bill through the legislative process.

Other positive initiatives that can be worked on at the federal level include enhancing energy self-reliance in federal buildings and installations. There are several

military bases that have the proper pipelines and grid infrastructure to have independent generators, but a provision in law that requires them to purchase energy from the private sector prevents a move to self-sufficiency. Minor language included in the upcoming Defense Department authorization bill could make this happen. Distributed generation demonstration projects at federal buildings would also alleviate some of the burden on the grid. The Pechanga Indian tribe in my district is also taking proactive steps. Local tribal leaders met with FERC to see what would be necessary to build a 50-megawatt power plant on their reservation. It turns out that tribes don't need permission from the federal government to become energy self-sufficient. I encourage Members and officials to work with their tribes to find ways to become more self-reliant and energy efficient at the local level. These are all modest initiatives, but they send a message. If we're going to make consumers and businesses make tough decisions to conserve and reduce consumption, the federal government must do its part as a user of the grid and a major consumer of electricity.

In meetings with local communities and city councils over the February District Work Period, many came to me with local infrastructure projects, several of which were energy dependent. I told them that they had to include plans to either reduce their energy needs or create new energy sources—again, emphasizing that we're all in this together. One city has a methane source from a landfill that they are simply venting into the atmosphere. A small generation facility could produce energy from that waste gas and have an added clean air benefit.

Mr. Chairman, there are no easy answers. It takes strong leadership to make these tough decisions. Absence of leadership will only exacerbate and continue the energy crisis. It is time for the Governor, state regulators, and the state legislature to get their heads out of the sand and lead. It is time for those of us in Washington to roll up our sleeves and do what we can to encourage this effort.

The American people have a history of solving problems where government has failed to do so. We have a responsibility and an obligation to let them help us out of this crisis. As you move forward in addressing this crisis, please make energy self-sufficiency and distributed generation a part of the solution.

Again, Mr. Chairman, thank you for allowing me the opportunity to share my thoughts with you. I look forward to working with you and my colleagues on these critical issues.

Mr. BARTON. Thank you, Congressman Issa.

We would now like to hear from another Californian, Congressman Mike Thompson. Your statement is in the record and you are recognized for 5 minutes.

**STATEMENT OF HON. MIKE THOMPSON, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. THOMPSON. Thank you, Mr. Chairman and members. I want to thank you for allowing me to testify. I think the fact that we are having this hearing today is emblematic of the importance that we all see in solving this energy crisis that not only affects California but will affect the entire Nation. I have a statement that I would like to submit.

Mr. BARTON. Without objection.

Mr. THOMPSON. Thank you. And I would like to just make some brief remarks today.

It is important to note that this California energy crisis is not just a California crisis. It is a crisis that could affect the whole country, and failure to adequately ensure reliability of supply at affordable rates in California could have an economic ripple that goes across the entire United States and hurts, where California in the past has really been the engine that has driven this economic boom that we have all benefited from.

In my district, we have had tremendous impact from the energy problems, both on individuals and on businesses. I have had timber operations that have been disrupted. I have had a pulp plant that has been shut down and a particle board plant that has been shut

down. One dairy in my district had to throw away thousands of gallons of milk because the rolling blackout stopped them from being able to process this milk. I have a senior center that may have to close its doors permanently because it can't afford to pay its energy bill and the ongoing energy costs of keeping those doors open.

I have small electrical generators who have been selling power to PG&E for a number of years, and I have two in one small county in my district that together are owed \$26 million from PG&E for electricity that they have generated, sold, and not been paid for. Not only has this hurt this individual business but any of you can imagine the economic impact of taking \$26 million out of a county in your district. And individuals have experienced such trouble and such costly bills that they are just too numerous to mention.

I think it is important to note that everybody has focused on trying to solve this problem. State level, Federal level, everybody has some idea as to how it can be dealt with. Everything from energy conservation to seeking out long-term contracts, to the State of California buying transmission lines, to the expediting of building permittings for generators. But the fact remains, there is only the Federal Government can take action that will provide immediate relief, and that action would be in the area of temporary cost-based price caps. Anything else is a long-term solution, and individuals and businesses in California cannot wait for long-term solutions. We need to step up to the plate and help solve this issue.

I would encourage this committee to take swift action on the Eshoo-Hunter bill and to encourage, to demand that FERC take swift action. They have already found that generators have been charging unjust and unreasonable prices. They have a responsibility to all consumers, businesses or individuals, to take action immediately, to intercede in this effort and to provide some relief.

I would like to thank the committee. I have my testimony here that I would like to submit and appreciate your convening this hearing.

[The prepared statement of Hon. Mike Thompson follows:]

PREPARED STATEMENT OF HON. MIKE THOMPSON, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF CALIFORNIA

Mr. Chairman and Members of the Subcommittee, thank you very much for the opportunity to testify today. The fact that you are holding this hearing shows how important the resolution of the current energy crisis is for California and the United States.

The current situation in California will have far reaching consequences for the country as a whole, as Federal Reserve Chairman Alan Greenspan recently noted. Failure to adequately ensure reliability of supply at affordable rates in California could have a huge ripple effect on the economy of our entire nation.

In my Congressional District, the crisis has disrupted timber and lumber operations in Humboldt County including lay-offs at the Louisiana-Pacific's Samoa pulp plant and costly interruptions at Louisiana-Pacific's particle board plant. Blue Lake Forest products had to move its one daytime shift of 92 employees to the graveyard shift. Electrical producers in my district also are feeling the crunch. One small generator is owed \$19 million by PG&E.

The crux of California's current problem lies with the wholesale market, where costs have been allowed to skyrocket to unprecedented levels. Last week, former Federal Energy Regulatory Commission (FERC) Chair Elizabeth Moler—who was initially appointed to the Commission by President Reagan—said that the FERC should intervene more strongly in California's energy crisis, including imposing tem-

porary price caps on wholesalers. I, along with many of my California colleagues from both sides of the aisle, share this view.

Unfortunately, FERC has failed to take timely and necessary action to stabilize the market despite its findings on November 1, 2000 that wholesale rates being charged to California utilities were “unjust and unreasonable.” FERC’s failure to fulfill its most basic mission—ensuring reasonable rates for consumers—has allowed the crisis to fester. In my view, the commission acted in an unjust and unreasonable manner when it refused to impose temporary, cost-of-service based caps on wholesale prices.

I am a cosponsor of the legislation (H.R. 238) introduced by Reps. Anna Eshoo and Duncan Hunter that would expand the authority of the Secretary of Energy to stabilize wholesale electric prices during periods of unjust and unreasonable rate increases. This new parallel authority with FERC, will help ensure that the Federal government has to authority to act in times of an energy crisis if FERC fails to do so. FERC’s recent action—or should I say inaction—demonstrates that this legislation is clearly needed. I hope you, Mr. Chairman, and the other Members of the Committee will support the bill’s swift passage and enactment.

I recently requested the General Accounting Office (GAO) to investigate the causes of the energy crisis and to present and evaluate what can be done to increase electrical supplies in the West. As a part of this investigation, the GAO is to conduct a feasibility study on building or reconstructing power plants on military bases for civilian use. Twenty-three of our colleagues joined me in making this request and we look forward to sharing the report’s findings with the Members of the Energy and Commerce Committee.

Both long-term and short-term solutions must be developed and implemented. On the state level, California has been purchasing its own power in an effort to stabilize prices and ensure supply. It has stepped up conservation efforts, leading to an impressive eight percent drop in energy consumption in February. Further, the state is working quickly to bring new generating facilities on line and has proposed to purchase transmission grids owned by the debt-ridden utilities in order to stabilize the market. Still, despite these initiatives, California remains in danger of power outages when demand for electricity climbs this summer.

We should remember that this is a regional energy crisis. It is true that California has not built enough new generation and transmission to keep up with the demand. But California is not alone. New generating facilities and transmission lines have not kept pace with demand throughout the West. Further, the Pacific Northwest is also facing a possible shortage of electricity this summer because low rainfall this winter will require dam operators to dip into reservoirs for water to turn turbines. Regional problems demand regional solutions, which can only be accomplished by the Federal government.

Congress and the Administration, with the support and leadership of President Bush, have the authority to forge solutions across state boundaries. As the President noted in his February 27th address to Congress, he has formed a task force headed by Vice President Cheney to address the crisis as part of a national energy strategy and is working with the State of California to streamline permitting procedures for new power plants. These two actions, while helpful in crafting long term solutions to the crisis, do not go far enough or fast enough. To avert severe blackouts and price spikes this summer, the Federal government needs to act quickly and more forcefully, including the imposition of interim cost-of-service-based rate caps across the Western region. These temporary caps will stabilize the market until sufficient power and transmission sources are developed.

As the committee is well aware, this crisis isn’t just about electricity. There is an emerging natural gas crisis in California and across the United States. Over the past year, natural gas prices have skyrocketed 59% nationwide and have tripled in California. Natural gas storage is at record lows and experts agree that one of the major causes of this crisis is an increase in demand and a lack of supply. The dramatic price increases are especially alarming since all the new generation coming on line in California is natural gas powered.

The price increases are passed directly on to consumers and are hitting my constituents hard. I recently received a letter from Mr. and Mrs. Frank Kelly of Napa. They sent me a list of their gas bills starting in September 1999 when they were paying \$20 a month. In December 2000, their bill was \$475. Ms. Karen O’Rourke of Orleans owns a RV park. She is faced with a mostly vacant park and a gas bill of \$685. Mr. and Mrs. Shields of Fairfield, Mr. Bolling of Eureka, Mr. Carrell of Mendocino and Mr. Blankenship of Ukiah are seniors living on fixed incomes. They have to make the choice between buying food to eat, medication to live or heat for their homes. These letters are just a few examples of the people who are suffering through this energy crisis. Again, this energy crisis is not unique to California—I’m

sure many of you have also heard about the difficult choices facing your constituents.

To help determine why supplies are so low and, in turn, why prices are so high, I have introduced H.R. 712. This bill commissions the National Academy of Sciences to investigate and determine the cause of recent price spikes in natural gas. First, the study will examine whether the drastic increase in natural gas prices is from the usual market fluctuations or whether it can be attributed to other causes. Second, the study will determine if federal or state policies that might have contributed to the shortage of supply. And, third, the study will examine the scientific feasibility of a federal natural gas reserve system. This system would be modeled after the Strategic Petroleum Reserve to be used in times of decreased supply and price emergencies.

On February 28, 2001, Pacific Gas and Electric (PG&E) announced that market prices for natural gas will decline an average of 16% on consumer bills over the next month. While this looks promising, we must remember that the newly approved power generation plants coming on line in the next few years in California are all powered by natural gas. In addition, California's population has increased 13.5% over the last 10 years and continues to grow.

We also must continue to do what we can to ease the burden on those less fortunate. That is why I support Representative Ed Markey's Emergency Energy Response Act of 2001. I also have signed onto letters to the Appropriations Committee and to President Bush. The legislation and the letters ask for an increase in funding of the Low-Income Home Energy Assistance Program (LIHEAP) and Weatherization funds.

I invite you to join with me in cosponsoring H.R. 712. By determining the dimensions and causes of the high price of natural gas, we can work towards a solution that will ensure an adequate, reliable and affordable supply of natural gas.

Again, I thank you for the opportunity to testify before the Subcommittee. I ask that my testimony be submitted for the record and am pleased to answer any questions.

Mr. BARTON. Thank you Congressman.

The Chair would recognize himself for 5 minutes. We are going to have one round of 5-minute questions and then we will go to the next panel.

Which of you gentlemen could give me an indication what the baseload generation capacity is in California and what is the baseload demand? Congressman Inslee.

Mr. INSLEE. These are off the top of my head, but it is about 45,000 megawatts available in the California market, and there is a real interesting fact, because while there are 45,000 megawatts available, there has only been 30,000 essentially on line at any given time. So there has been about 15,000 megawatts capacity of the California generators on any given day that has not been on line, and we can only account for about half of that being down due to maintenance or potentially emission standard issues.

So there is about anywhere in a given today from about 6- to 8,000 megawatts of capacity that has not been on line that are sort of AWOL and no one has come before us to—

Mr. BARTON. Do you know what the baseload demand is? Over that?

Mr. INSLEE. It is around 32,000 or—no, wait a minute. You can check me on that.

Mr. BARTON. I am told the demand is about 20 percent higher than the supply.

Mr. INSLEE. The demand is infinite, regardless of price.

Mr. BARTON. Average prices. I am not talking about peak demand, I am talking the baseload intrastate generation capacity is—let's forget—is less than the baseload demand.

Mr. ISSA. Mr. Chairman, it is about 45 as a normal demand. If California threw everything out the window we can produce about

52 peak. Peak. The Congressman has a point, which is at any given time there is quite a bit down for both maintenance, which is expected, remembering that some of this 52 potential includes peakers and it includes a lot of systems which don't run efficiently if you tell them that you are going to produce at a certain amount.

Mr. BARTON. My point is if we are going to look at solutions, and I agree that we should, that the chronic problem is more demand than supply intrastate, and it is exacerbated because the California law didn't have a planning mechanism for additional supply. It was—they just forgot about it, or what. So the price cap solution, obviously there would be some short-term benefit or should be some short-term benefit to wholesale price cap, but I don't see that that helps the long-term solution.

Mr. THOMPSON. If I may, everything that we have been talking about now has been long term. There is an attempt to expedite the permits, to bring on new generators. There are new generators on line, and anywhere from within the next 2 to 4 years to come on line. So the needed supply numbers are projected on being there within the next 2 to 4 years.

Mr. BARTON. I understand that.

Mr. THOMPSON. The price cap point they alluded to was in the immediate. The only way to deal with the exorbitant price that is being charged is to apply on a temporary basis to correspond with the new generators coming on line these cost-based caps.

Mr. BARTON. But if we go down that trail and don't restructure the retail price, if you maintain for lack of a better definition, a below-market retail price and you put in wholesale price caps on top of that, don't you just extend the problem around the region, around the country, because a rate, a cost-based wholesale price cap, if somebody has power generating capacity outside the region, and they can make more by selling it somewhere else, i.e. Somewhere else other than California, you have not done anything. I mean, California has adopted wholesale price caps at the State level several times in the last 12 months and it doesn't appear to have done anything. So I just—I don't—I kind of understand the general theory, but I don't understand the application and practice because it just simply hasn't worked.

Mr. INSLEE. Mr. Chairman, could I address that?

Mr. BARTON. Sure.

Mr. INSLEE. I think it is analogous. It is a very important point you make that wholesale price caps are not the long-term solution either to a price or supply issue. I think that is an important point. What we are suggesting is we adopt a short-term, well-defined system of wholesale price cost-based caps that have this very important feature, and I hope it is not lost in this. You exempt from the cap new generating capacity, so that there is no disincentive for the creation of additional generating capacity which we clearly need in addition to conservation. It is akin to the situation where you have the India earthquake. We want people to drill new wells, but you don't want people to charge \$500 a quart for water.

What we are suggesting is, we tell existing generators on a short-term basis you can't charge \$500 a quart for water during the emergency part of this economic and natural disaster, because it is a combination of California's deregulation debacle and our water-

short years in the Northwest, but we are going to allow you to go out and encourage you to go out and build new wells, and we're going to exempt that from the price cap. And this is why, frankly, the administration has failed to even consider price caps, because they haven't thought about the fact that we cannot create a disincentive if we exempt them from the cap. That is what we need this administration to consider and I hope the committee can in some way urge them to do so.

Mr. ISSA. I think, Mr. Chairman, you made a very valid point and you hit it right on. California already, with what it produces internally, it can decide what it is going to allow those prices to be. When we talk about power that could come into California or go to some other State, we already have the western States paying a premium for the sins of California. If in fact the Federal Government just automatically says without a long-term strategy that is signed onto that is amenable to the other States and the rest of the country, if we simply say, sure, we will protect you from your past errors for a period of 1, 2, or 3 years, those years could go well beyond that. And in the meantime, any sensible commodity seller is going to move their commodity to a place where they can get a better price, and right now California is trying to get a below-market price.

Mr. BARTON. My time has expired. We have been joined by the two other members who wanted to give testimony. Normally once we start questions we continue it, but this is an unusual hearing in that it is a members' hearing. So we are going to go to Congresswoman Davis for her statement and then Congressman Honda and then we will go to Mr. Strickland for questions.

Your statement is in the record in its entirety and you are recognized for 5 minutes, Congresswoman Davis.

STATEMENT OF HON. SUSAN A. DAVIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mrs. DAVIS OF CALIFORNIA. I appreciate the opportunity to comment on the electricity prices in California and I appreciate I just came in during the last questioning and would be happy to engage in that afterwards.

As you have heard from previous speakers, deregulation on electricity prices was intended to create competition in a free marketplace and to result in reducing the price of electricity. However, in the dysfunctional market, prices were manipulated by a handful of producers and this resulted in soaring prices unrelated to the cost of production.

Despite repeated requests and suits, the Federal Energy Regulatory Commission has refused to exercise its mandated authority to assure that power rates are just and reasonable, either by making cost-basis temporary caps we have just been discussing on existing generators, or by fining those companies which have egregiously manipulated the market.

The ironic consequence, I think, of this manipulation may well be an increase in municipal ownership of utilities. As Members of Congress, we need to look at some actions we can take to foster environmentally and economically sound municipally owned generators. And there are four areas which I would like to cite for you.

The first would be to increase the tax credit incentives for renewable source generators; and, second, to assure adequate safe natural gas pipeline capacity; third, to support refinery-level cleansing of diesel fuel; and finally, in addition, to meet the personal impacts of the crisis, to provide some temporary cost-of-living housing increases for our military families to cope with the escalating energy costs.

The city of San Diego and the county of San Diego, the San Diego County Water Authority, and some other municipalities are now setting options to build new facilities. In January I initiated a meeting among city and county leaders and State and Federal legislators to discuss some options. Our staffs continue to meet to share information. Either individually or through joint powers agreements, local governments can benefit from tax-free bonds to capitalize plants and potentially could receive preference for Federal hydropower projects.

I am pleased to report that the projects that have been put forward include some exciting additions to the renewable resources market, and these include a project approved by the county of San Diego to construct a biomass generator at a closed county landfill site. San Diego sewage treatment facilities already are using waste gas for generation in excess of their needs. They have plans for fuel cell and photovoltaic pilot projects to capture other sources of renewable energy.

Although the effect of each project is small, together they add to total generation and carry out our responsibility to invest in new nonpetroleum-based power generation.

In addition, the San Diego County Water Authority had already received authority to build power plants and transmission lines. We will be able to operate hydroelectric generators using water stored behind the new Olivenhain Dam which is under construction. Because we generally think of San Diego County as being water poor, it is exciting to realize that even here some hydroelectric power can be produced.

Because the regulations limit where the Water Authority can sell power, it is important that all new sources of power be enabled to sell power to the distributing agency, which in that case would be San Diego Gas and Electric Company.

Renewable energy sources for generation of power such as these deserve our support, with expanded tax credits for development, and several traditional projects are being considered. My colleague, Duncan Hunter, who unfortunately has not had a chance to address you yet today, would have told you about the Marine Corps Air Station Miramar proposal which he has been pursuing. Another project has been proposed by a local energy company for a 750-megawatt natural gas power generating plant to be sited near a city landfill. The city of San Diego was exploring this option along with other government entities to create some publicly owned utilities to serve the entire county.

In addition to these proposals, small cogeneration plants are being built to serve the 35,000 population of our State universities. Because these projects use petroleum resources, they require a supply of natural gas or clean diesel fuel of sufficient quantity at na-

tionally comparable prices. Congress must be certain that natural gas pipelines are safe and that they are sufficient.

It would also serve us well to give incentives to promote cleaning diesel fuel to the lowest sulfur levels at the refinery stage, thus reducing the need for adding scrubbers to newly constructed turbines. It would enable diesel refined in California to be used as available to meet responsible air quality. This goes both for power plants and for use in diesel trucks. And while these proposals clearly address near- and long-term goals, it is critical that we address the immediate needs—

Mr. BARTON. Could you summarize, Congresswoman?

Mrs. DAVIS OF CALIFORNIA. Sure—of some of our most vulnerable citizens. And that is why I wanted to cite the effects of the cost of gas and electric utilities on our military families in San Diego and suggest to you perhaps that we respond to this issue by increasing housing allowances for a limited period of time for military living in the area where basic utility costs have more than doubled as a first step to meeting the challenge to adequately support our military personnel there in the San Diego region.

Thank you very much for the time and appreciate your questions.

Mr. BARTON. Thank you for your testimony. We now go to Congressman Honda. Your statement is in the record. We would recognize you for 5 minutes.

STATEMENT OF HON. MICHAEL M. HONDA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. HONDA. Thank you, Mr. Chairman, members of the committee. Thank you for inviting me to testify today and for your decision to hold this hearing on California's electricity crisis.

I can assure you that my constituents in California's 15th Congressional District welcome this discussion and look forward to the committee's consideration of important legislation that might provide short-term relief and long-term incentives to bolster California's electricity supply.

Like all Members from California, I receive letters and phone calls from almost every segment of my constituency expressing concern over rising electricity prices and rolling blackouts. Almost 2 weeks ago, I invited a number of individuals representing various organizations, companies, and communities to my office to discuss the devastating effects that California's energy crisis is having on Silicon Valley residences and businesses. The attendees included representatives from nonprofits, chambers of commerce, high-tech companies, health care organizations and schools. Each offered a unique perspective and eloquent case for stronger Federal action. I would love to detail all their stories, but for brevity's sake I will just concentrate on two areas: high-tech and education.

You know that Silicon Valley is comprised, in part, by high-tech companies that operate machinery and computers that are incredibly sensitive to fluctuations in electrical currents. This is especially true for semiconductor companies and co-location facilities. When a blackout interrupts work at a high-tech company, millions of dollars in unfinished products can be lost and it can often take huge financial investments to return operations to normal working order.

When rolling blackouts swept through the San Francisco Bay Area in mid-January, the Silicon Valley Manufacturing Group reported that approximately 60 of its members had been directly impacted. The manufacturing group estimated that 100,000 Silicon Valley employees were unable to work and tens of millions of dollars were lost.

The Bay Area is accustomed to addressing quality-of-life concerns, and the issue of energy is no exception. Governor Davis announced just 2 days ago that California businesses and consumers cut their energy consumption by 8 percent in February. This is a dramatic cut and I compliment Californians for the great sacrifices that they are making. But I must say I am impressed with the resolve of high-tech companies to be part of the solution. I am especially pleased to see the significant efforts made by high-tech companies aimed at reducing electricity demands.

But the high-tech sector recognizes it cannot be a substitute for the role of government. The State of California and the Federal Government must also stand firmly on the side of sound energy policy.

While the media has given a great deal of attention to the private sector and the crisis, the media has paid considerably less attention to the detrimental effects that higher electricity prices have had on our schools. One school district in our valley estimates they will pay \$136,000 more for electricity this fiscal year. And this next year the numbers are even more startling. The school district will increase its budget for electricity by \$500,000. These dollars come out of the district's general funds, meaning that schools in this district will have fewer funds to hire teachers, pay for school books and upgrade education technology.

These numbers are even more striking when you consider that the school district has already implemented strong conservation measures. In fact, the average energy cost per square foot is almost 25 percent less than the cost per square foot at an average K-12 California school district. To save money, some schools have even considered limiting operating hours from 8 a.m. to 3 p.m. Such a decision would preclude a school from offering after-school activities, as well as a suitable environment for teachers to prepare for the next day's lessons.

As a former educator, I am disheartened that schools are forced to adopt such measures, especially when many of our schools have little money to invest in energy-efficient devices. I know that Congressman Mark Udall has shown exemplary leadership on this issue, and I hope that the committee will follow his lead and look more closely at how the Federal Government can further encourage school districts to deploy these technologies in their schools.

My goal today in testifying is not just to communicate to you the challenges that are faced by my constituents. Rather, I offer their stories to you as further evidence that the Federal Government must act to bring down skyrocketing electricity prices and help prevent further blackouts. We have a role, and I join my colleagues in expressing my great dismay that the Federal Energy Regulatory Commission has been so reluctant to act.

I urge this committee to consider carefully and expeditiously legislation introduced by Congresswoman Anna Eshoo and legislation

offered by Congressman Filner. The chief aim of each bill is to establish cost-of-service-based rates or regional caps for wholesale electricity based on the determination that current prices are “unjust and unreasonable.”

Mr. BARTON. Congressman, could you summarize?

Mr. HONDA. Certainly. Just to close, what we are really looking at is trying to make sure that there is a short-term cost mechanism and then a long-term strategy to solve the problem California is facing.

And finally, I want to voice my support for increased funding and emergency supplemental appropriations for LIHEAP, as well as the energy and weatherization programs.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Mike Honda follows:]

PREPARED STATEMENT OF HON. MIKE HONDA, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF CALIFORNIA

Mr. Chairman, Congressman Boucher and Members of the Committee, thank you for inviting me to testify today and for your decision to hold this hearing on California's electricity crisis.

I can assure you that my constituents in California's 15th Congressional District welcome this discussion and look forward to the Committee's consideration of important legislation that might provide short-term relief and long-term incentives to bolster California's electricity supply.

Like all members from California, I've received letters and phone calls from almost every segment of my constituency expressing concern over rising electricity prices and rolling blackouts.

Almost two weeks ago, I invited a number of individuals—representing various organizations, companies and communities—to my office to discuss the devastating effects that California's energy crisis is having on Silicon Valley residents and businesses.

Attendees included representatives from non-profits, chambers of commerce, high tech companies, health care organizations, and schools. Each offered a unique perspective and an eloquent case for stronger federal action.

I would love to detail all of their stories, but for brevity's sake and more importantly—because of the Committee's strict time limit, I will only share with the committee the effects that this crisis is having on two important sectors in my district: high tech and education.

As many of you know, Silicon Valley is comprised, in part, of high tech companies that operate machinery and computers that are incredibly sensitive to fluctuations in electrical currents. This is especially true for semiconductor companies and collocation facilities. When a blackout interrupts work at a high tech company, millions of dollars in unfinished products can be lost and it can often take huge financial investments to return operations to normal working order.

When rolling blackouts swept through the San Francisco Bay Area in mid-January, the Silicon Valley Manufacturing Group reported that approximately sixty of its members had been “directly impacted.” The Manufacturing Group estimated that 100,000 Silicon Valley employees were unable to work and tens of millions of dollars were lost.

The Bay Area is accustomed to addressing quality of life concerns and the issue of energy is no exception. Governor Davis announced just two days ago that California businesses and consumers cut their energy consumption by 8% in February. This is a dramatic cut and I compliment the Californians for the great sacrifices they are making.

But I must say I am impressed with the resolve of high tech companies to be part of the solution. I'm especially pleased to see the significant efforts made by high tech companies aimed at reducing electricity demand.

Companies that have already reduced energy consumption through implementing energy reduction plans have pledged to further reduce consumption during peak times. In addition, many of these companies are educating their employees on electricity reducing steps that can be implemented at work and at home.

But the high tech sector recognizes it cannot be a substitute for the role of government. The State of California and the federal government must also stand firmly on the side of sound energy policy.

While the media has given a great deal of attention to the private sector and the crisis, the media has paid considerably less attention to the detrimental effects that higher electricity prices have had on our schools.

One school district in Silicon Valley estimates that it will pay \$136,000 more for electricity this fiscal year. Next fiscal year, the numbers are even more startling. The school district will increase its electricity budget by \$500,000. These dollars come out of the district's general funds—meaning that the schools in this district will have fewer funds to hire teachers, pay for school books and upgrade education technology.

And these numbers are even more striking when you consider that this school district has already implemented strong conservation measures. In fact, the average energy cost per square foot is almost 25% less than the cost per square foot at an average K-12 California school district.

To save money, some schools have even considered limiting operating hours to 8am to 3pm. Such a decision would preclude the school from offering after school activities, as well as a suitable environment for teachers to prepare for the next day's lessons.

As a former educator, I'm disheartened that schools are forced to adopt such measures, especially when many of our schools have little money to invest in energy efficient devices. I know that Congressman Mark Udall has shown exemplary leadership on this issue and I hope the Committee will follow his lead and look more closely at how the federal government can further encourage school districts to deploy these technologies in their schools.

My goal in testifying today is not merely to communicate to you the challenges facing my constituents. Rather, I offer their stories to you as further evidence that the federal government must act to bring down skyrocketing electricity prices and help prevent further blackouts.

I join a number of my colleagues in expressing great dismay that the Federal Energy Regulatory Commission has been so reluctant to act. I, therefore, urge this committee to consider carefully and expeditiously legislation introduced by Congresswoman Anna Eshoo and legislation offered by Congressman Filner. The chief aim of each bill is to establish cost-of-service based rates or regional caps for wholesale electricity based on the determination that current prices are "unjust and unreasonable."

Clearly, instituting price caps is an unusual measure and one that should not be implemented carelessly. But I contend that in the case of California's electricity market, regional price caps or cost-of-service rates are appropriate and warranted.

I hope and expect that the Committee will further explore the importance in further diversifying electricity supply with affordable renewable energy sources. I also believe that the federal government can play a stronger role in offering incentives to companies and homeowners that install devices that promote energy efficiency.

On a related note, I urge the Committee to retain strong federal environmental laws governing the process for electrical generating plant construction, while at the same time exploring ways in which the process can be streamlined. The California energy crisis must not be an excuse to rollback hard fought environmental laws.

Finally, I want to voice my support for increased funding—including emergency supplemental appropriations—for LIHEAP, as well as the Energy and the Weatherization Programs.

But I fear that federal action may be stalled by the mistaken perception that California's energy crisis is California's problem. I hope this is not the case because the consequences of California's electricity crisis are already rippling through the West and the detrimental effects this crisis has on California—the sixth largest economy in the world—will ultimately hurt our national prosperity.

Thank you.

Mr. BARTON. We are now going to resume our questions. The gentleman from Ohio, Mr. Strickland, is recognized for 5 minutes.

Mr. STRICKLAND. Thank you, Mr. Chairman. As I listened to my colleagues from the West, I could say to them that many of my constituents in southern Ohio are facing high costs of energy, electricity—not so much electricity currently but certainly natural gas. I think we have a looming disaster facing our economy, a disaster that could drag us down into a deep recession.

What this does, I think, or it should do is impress upon this Congress that we need a national energy policy that is comprehensive and inclusive and includes all forms of energy. And I see my friend

from California shaking his head. We believe in the use of coal. We believe in the use of nuclear energy. We believe in more ethanol use. We need to get on with that. But the fact is that would be a longer-term solution, and what we face is in an immediate crisis.

Now, Mr. Inslee, your comments indicated, I believe you said that some of the generating capacity in California was AWOL. What are some of the plausible explanations for that?

Mr. INSLEE. Well, there are many. And basically there is 45,000 megawatts available. There has only been 30,000 on any given day on line.

Mr. STRICKLAND. Why?

Mr. INSLEE. That is a really great question and we have written a letter to the General Accounting Office, Peter DeFazio and I, to get a report on that. There is an explanation for about half of that missing 15,000. There are long-term or short-term maintenance requirements. They are down for a legitimate reason, and these generators are required to report the reasons when they are down. But that leaves about 6- to 8,000 megawatts that are AWOL, that are missing. There is no explanation they are not on except this—the ability to jigger and gain the market, to increase prices by withholding generating capacity. And there is a significant reason to believe that that has gone on.

In fact, I am certainly not the wisest head on that. There was a study done, which I will provide to the members of the committee, by a professor of MIT who studied the market just last year and concluded that there was a likelihood that, in fact, gaming had gone on, that generating capacity was withheld from the market to drive up these prices, and that is obviously very disturbing.

Now, one way to deal with that is a short-term wholesale price cap, to deal with this. And I should repeat, these are—there is nothing wrong with profits in America, healthy, great, we all aspire to them. But these were extraordinary profits not taken because they have developed a new technology or that they have taken a great investment risk which is now paying off, it is simply that they were there in the midst of a natural disaster, water-short year in the Pacific Northwest and the collapse of the California market, due to some political mistakes that were made.

So I have to tell you this is disturbing. We asked the General Accounting Office to have an investigation of this. It should be investigated. Appropriate sanctions should be taken if there is a finding there is inappropriate conduct, but even if there is not, even if somehow some mysterious explanation arises, the one thing we do know, abundantly clear, there are profits being taken in this industry that are beyond any imaginable returns in this industry ever for any reason, and I have got people going to food banks because of it.

Mr. BARTON. Would the gentleman yield on that point?

Mr. STRICKLAND. I would.

Mr. BARTON. Is it not true that 30 percent of the plants in California are at least 30 years old and over 20 percent are at least 40 years old? So the older plants might tend to have a little bit higher-than-normal maintenance.

Mr. INSLEE. Yes. In fact, in typical years, only about 2,000 megawatts are down at any one time. This year there is a legiti-

mate explanation of about 7- to 8,000 being down for exactly the reasons that you point out, but there are still another 6- to 8,000 megawatts where there is no explanation.

Mr. BARTON. My understanding is that California has been in a Stage 1 reserve, or 3, for about the last 6 months. So that as it begins to ease, some of these plants that were being given routine maintenance, they might legitimately be out of service simply to catch up on deferred maintenance. I don't know that, but that is at least a plausible explanation to the—

Mr. STRICKLAND. Sure. And if I could reclaim my time, the reason I asked the question is that your comment implied some possible guilt on the part of the companies to increase profits, and it seems as if the size of this crisis facing the country should encourage us to try to find an answer to that, without any opinion going into the research. You know, I just think we need to know that.

Now, one other question and I ask this question because many of us in the Midwest are fearful that what is happening in California—you know, California is a trend setter, proudly so, cultural, arts and so on and so forth. But we are afraid that California may be a trend setter in terms of blackouts and high prices, and I think there has to be a national response.

Now, I know that you had a chance to speak briefly with the President at the Democratic retreat. Have you spoken with other members of the administration and, if so, what has been the response?

Mr. INSLEE. Well, unfortunately, it has been disappointing. And let me tell you, I have been very—before expressing disappointment in this administration, I want to express some praise. They have done a good job for the one disaster in Seattle, which is the earthquake last year. We have got a good response from the administration in that, but after that it is very disappointing. I spoke to the President. He came to our bipartisan retreat, or our retreat in Pennsylvania. I spoke to him about this issue. I proposed this price cap to him. He expressed a disinclination, to put it mildly, to do so. But I said there is a way to do this, Mr. President, which will not be a disincentive for new generating capacity; and he said, if that is true, you and your group go talk to the Vice President.

So for the last 3 weeks I have been attempting to get a meeting with the Vice President's task force to discuss this, and we have been told they won't meet with us, and that is very disappointing to me in today's air of bipartisanship. So we have written a letter today, signed by 25 members up and down the West Coast, including at least one good Republican, asking for a meeting to discuss this issue. And I hope that they will avail us that opportunity, because I think it is very important not to allow ideology to stand in the way of good solutions.

Mr. STRICKLAND. Mr. Chairman, my time is up. I want to thank you, and I want to thank you, and I really believe that this is not an issue that we can deal with in a partisan way. This is—

Mr. BARTON. I agree.

Mr. STRICKLAND. This is an issue that has got to have all of us working together because it affects all of us, and I think the answer is going to take, you know, the best minds among us to figure out the best approach. Thank you.

Mr. ISSA. Mr. Chairman, could I respond quickly to that?

Mr. BARTON. Actually, you can respond in writing. But we have got a whole other panel of Congressmen and Congresswomen already here. So we are going to try to expedite the questions on this panel, but if you want to put it in writing, Congressman Issa, we would love to have it.

Congressman Shimkus would be recognized. And I want to let Congressman Bono and Congressman Radanovich know, since they testified, we can't let the witnesses ask themselves questions, you know, that it was the greatest testimony you ever heard, so.

Mr. HONDA. Mr. Chairman, I just want to thank you for this opportunity and I feel very comfortable with the mindset that Congressman Strickland had laid out. So I thank you for the opportunity.

Mr. BARTON. Mr. Shimkus for 5 minutes.

Mr. SHIMKUS. Thank you, Mr. Chairman. A couple questions, and I was going to ask Mike but he has left. Congressman Davis, you were a member of the California General Assembly; is that correct?

Mrs. DAVIS OF CALIFORNIA. Yes, I was.

Mr. SHIMKUS. Part of the hearings that we have had already and part of the news article that I have quoted a couple of times, part of the problem dealt with long-term—that California did not go into long-term contracts.

Mrs. DAVIS OF CALIFORNIA. Right.

Mr. SHIMKUS. Some of the debate as to why California did not deal with long-term contracts that the State went into under the PURPA, under the renewable—the clean producing technologies which created exorbitant prices for the producers because they were forced to purchase these long-term contracts.

Could you—I have heard that, you know, through articles and it has been raised in hearings. In your discussions, was that part of the reason why California in their deregulation bill did not go into for the retail long-term contracts.

Mrs. DAVIS OF CALIFORNIA. The experience was that in the long term, that it would not be helpful to consumers. But clearly I think there were so many parts to that plan that misfired or really didn't materialize in the way that people anticipated, and of course one of those is they didn't expect all the generation to be out of State.

Mr. SHIMKUS. But to go back to the issue then, the PURPA requirement to purchase renewable clean energy producing over a long-term contract was not advantageous to the consumers based on the electricity prices, is that correct to say, and that is why there was a fear of going into any long-term contracts?

Mrs. DAVIS OF CALIFORNIA. Well, at the time, they really felt that it would be not necessarily better purchasing on the spot market per se, but that there were problems in the long term with doing that.

Mr. SHIMKUS. Was there anything else that you personally as a legislator thought that was good about the plan? You supported it; is that correct?

Mrs. DAVIS OF CALIFORNIA. Right at that time, as you know, it was unanimous and everybody was really at the table at that time, and I think that they believed that this would lower electricity

rates, but again there were so many things that changed in the interim that weren't really anticipated.

Mr. SHIMKUS. Congressman Issa.

Mr. ISSA. Yes, there was some dissension; it just wasn't in the legislature. The PUC had a 3-to-2 vote with Commissioner Jessie Knight and one other pushing very hard not to bar the energy companies from buying long term, and so basically that is what created more of this problem than anything else.

One of the problems in California is the legislature and the three members who voted to require buying on a daily market. They made the assumption that, well, you can buy cheaper and, just like anything else, if you want to get a hotel room in Las Vegas after 2 in the morning, if there is one available you can get it for an amazingly low price. On the other hand, if there is a convention in town, guess what? Even the penthouse at the best hotel may not be available, and if it is, it may be \$10,000 a night because it is available and nothing else is.

This is exactly the problem California got into is they thought they were smart when they bought short. Now that, in fact, short is more expensive, they have a reluctance to buy long, and even the Governor's proposal to spend billions, 10 billion plus dollars in ensuring buying, he is buying the baseload. Rather than saying let the companies buy their own baseload long term, we are going to guarantee the additional purchase. If the Governor were to buy \$5 billion worth of future excess capacity in addition to the 52,000 megawatts that are available, in fact he would be driving down the price, and this is exactly the opposite of what the Governor is doing.

Mr. SHIMKUS. And let me ask each of you—and if you can answer it briefly because my time's going to run up. This is going to be my last question. If we cap—there are two parts of the equation. There is the supply and then there is the demand. If we cap wholesale rates, like California capped the retail rates for individual consumers, how do you encourage conservation with a capping of rates? How do you affect the other side of the equation, not just the supply but the demands?

Mr. INSLEE. I tell you one thing you can do is you can adopt variable pricing. Variable pricing has a higher cost during peak hour is one way, and we are going to have the first utility in the country doing that this year up in the Puget Sound area, and I hope this committee will look at that issue carefully.

Mr. SHIMKUS. We had energy deregulation debate. We think there is going to be metering and people are going to buy based upon peak hours so you would say that there should be some rate changes for the consumer.

Mr. INSLEE. Yes.

Mr. SHIMKUS. To help conservation.

Mr. INSLEE. Yes, and I believe there ought to be and need to be some price increases at the retail level in certain circumstances, but if the ones we have experienced of 50 to 100 percent in a 12-month period are so shocking to the economy, they can't deal with it.

Mrs. DAVIS OF CALIFORNIA. I think one of things we didn't deal with was deal with the demand side, and this is where we can do

that both on the commercial and residential end. After this experience, people have an understanding now of how they can utilize their own utilities at home in a different way. So it is not my opinion that this is going to, if we do wholesale caps, that people would start using more electricity than they need or not conserving.

The real difficulty, and I think perhaps there was a little confusion about the wholesale versus the retail caps, we do think that had the FERC capped the wholesale rates plus a profit, a reasonable and just profit early on, we would not have had to even step in on the retail prices, but that was the only thing we could really control in California. And San Diego, of course, experienced this before everybody else did and it was difficult for us to get a across the sense of panic really among residents over this.

Mr. SHIMKUS. But your deregulation—

Mr. BARTON. The gentleman's time has expired. We need to go to our next and last questioner in this round, the Congressman from Kentucky, Mr. Whitfield, for 5 minutes.

Mr. WHITFIELD. Thank you, Mr. Chairman. I think all the evidence indicates that most of the price spikes occurred within the area of natural gas. It hasn't really happened that much in coal or nuclear that I know of.

Now, some of you have made some rather serious allegations in my view. I know Mr. Filner has gone, but the words have been mentioned that prices were manipulated, there was illegal withholding of power, falsification and so forth. And Chairman Hecker, who happened to be a Democrat over at FERC, had asked for a report and analysis of the western markets on the wholesale rates. And as some of you have indicated, FERC has the legal authority to put caps on interstate rates if they are found to be unreasonable. And in that report which was issued in November of 2000, they said they found no evidence of market power abuse.

So that is the agency. The Federal Government has the authority to do this. So assuming that what they say is true and they are not going to act, are you all, particularly Ms. Davis and Mr. Inslee, despite the fact that maybe there is no proof of anything, are you still advocating that there be a cap on wholesale rates?

Mr. INSLEE. Mr. Whitfield, yes, I am advocating that, whether or not there was withholding generated or not, and I don't know that for sure. I want to make sure you understand we have asked the GAO to investigate this. I can't tell for sure there was or not. I think there was enough to cast some suspicion in that regard, but I am advocating that for this reason. The FERC also, in that very same report I think you are referring to, found "the Commission has found in this proceeding that the existing market structure and market rules, in conjunction with an imbalance of supply and demand in California, has caused and until remedied will continue to have the potential to cause unjust and unreasonable rates for short-term energy during certain time periods."

Now, to me, it is absolutely stunning that the Federal organization charged with the responsibility of assuring reasonable rates makes that finding and then does nothing, zipo, nada, to solve this particular problem, you know, whether there was withholding generating, but I do know people are being gouged for their elec-

trical prices today with unreasonable prices that are not required for the cost of producing that power.

Mr. ISSA. Mr. Whitfield, just to maybe shed a little light on this, the FERC Commissioner, or Chairman, met with the California delegation, bipartisan Republican and Democrat, and I think he explained this very very well. And the words the Congressman is saying are absolutely correct, but the finding is not that there was wrongdoing on behalf of the industry. The finding is there was wrongdoing on behalf of the California legislature and the people of California, and they created an environment in which they bought badly. And the change that needs to happen for the most part needs to happen in California, and they are beginning to change the rules so they buy smarter. And for the Federal Government to say you bought badly and you paid less for a time, but now when you are paying more we are going to prohibit that and claim there was some wrongdoing, would be folly.

Mr. WHITFIELD. Well, I mean I personally agree with you that what California did is almost unbelievable when you look through the process, but, Mr. Inslee, you made the comment, which makes a lot of sense, that if you institute short-term caps on wholesale rates and exempt new generators, that that could help solve the problem; except it is my understanding that in the State of California, if you are a new generator, then you are going to have to bear part of the cost of the stranded cost of the existing utilities to come in, plus you are going to have to reduce your rates to meet their initial 10 percent reduction of their retail rates.

Mr. INSLEE. Could I address this? This has to come down to, I think, the role of the Federal Government. I don't pretend with all my friends in California to say that every decision made there in retrospect was the right decision. What we are here to say, though, that the Federal Government is the only government right now who can care for my constituents, and simply sort of throwing rocks at California constantly is not going to solve this problem. We need a western statewide grid solution only this body, and the administration has the capability in my view of providing that and I urge you to do so.

Mr. WHITFIELD. So you would be in favor of overriding that aspect of California law.

Mr. INSLEE. I will leave that to you and California in that regard, but in one shape or another we need a wholesale price cap that is grid systemwide in the western United States short term.

Mr. BARTON. Time of the gentleman has expired. Congressman Walden, I am told, does not want to ask questions, is that correct?

We are going to excuse this panel. We thank you for your testimony. There may be some written questions but we obviously appreciate the input into this problem. We will have a specific hearing on California when we have experts come, hopefully later this month.

We would now like to welcome our second panel of Congressmen. We are going to recognize you basically in seniority, with some exceptions for committee members. And Congressman J.C. Watts, who has a leadership meeting, will be allowed to go first. So, J.C., if you will come forward. If it was up to me I would recognize Texans first, since we have Mr. Stenholm, but we are going to do this.

So we are going to recognize Congressman Watts, and then we will go to Congressman Ganske who is a member of the committee, and then we will start by seniority, and I think it would be Mr. Bereuter and Mr. Stenholm, and then after that I am lost, but I am sure that you all will help me.

So, gentlemen and lady, welcome to the subcommittee. Congressman Watts, your statement is in the record. You are recognized for 5 minutes to elaborate on it.

STATEMENT OF HON. J.C. WATTS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. WATTS. Thank you, Mr. Chairman, and thank you for accommodating my schedule, and I want to thank my colleagues for allowing me to go first.

Chairman Burton and members of the committee, thank you for the invitation to testify before you here today on an issue that is critical to the national security and continued prosperity of our Nation. This issue I speak of is the need for a comprehensive national energy policy that will ensure that the standard of living we enjoy today in America will continue in the future for our children and for our grandchildren. The last 8 years have seen a lack of such a policy and it is now time for that to change.

The energy issue is a critical national security issue. Currently we are importing about 57 percent of the oil used in this country, with 23 percent of that coming from the Persian Gulf region. Unless we take action, that number is forecast to increase to 64 percent in the year 2020. By contrast, our total imports were only 35 percent in 1973 when the Arab oil embargo created gas lines here at home. As recently as 1991 we went to war with Iraq not only to liberate Kuwait, but also to assure Saudi Arabia and the Persian Gulf States and our European allies that the United States was committed to the security of that region. Unfortunately, the last 8 years have seen such a weak-handed foreign policy toward Iraq that a nervous Saudi Arabia is now reaching out toward Iran. America cannot be so vulnerable to the leaders of OPEC.

Our reliance on imported oil weakens our national security, and it must be reduced through the implementation of a comprehensive national energy policy.

The energy issue also is an economic issue. As the former chairman of the Oklahoma Corporation Commission, the governing body in Oklahoma that regulates oil and gas, I am well aware of the essential role that energy plays in our economy. Without affordable, abundant, and reliable energy available, the wheels of our economic machine will slow and eventually halt. We must not allow that to happen.

Some people think that our new Information Age economy is less reliant upon energy than our old economy based on manufacturing. Nothing can be further from the truth. All of these Internet computer systems, e-businesses, and software firms require electricity to keep them running. The Internet and the systems associated with it consumes approximately 8 percent of the electricity used in the United States. In addition, all of those wonderful things ordered on the Internet still require transportation to reach the consumer, transportation that is 97 percent fueled by petroleum prod-

ucts. And, yes, America still does make products in factories that rely on energy to light the lights, run the conveyor belts, and heat the buildings.

Energy is essential to the production side of our economy. Energy is also essential to the consumption side of our economy. There is no greater detriment to consumer confidence than not knowing what your utility bill will be at the end of the month. No working family in America is going to buy a new car, a washing machine or computer when they are uncertain of the cost of their monthly utility bill.

Every person that has ever had an economics class knows the theory of supply and demand. Our energy supply is dwindling while our energy demand is growing. The Department of Energy predicts a growth in total energy consumption of 32 percent by 2020; 390 megawatts in new electrical generation capability will be required to meet that increased demand. This is the equivalent of constructing 40 new 500-megawatt power plants per year for the next 20 years.

Our oil refinery infrastructure is in no better shape. Currently our domestic refineries are running at 95 percent capacity and there has not been a new refinery built in the United States for the last 20 years. The nuclear industry that provides 20 percent of our electrical generation capability has been stagnant for years but offers the potential for large amounts of emission-free electrical power. The siting and permitting process required of the nuclear industry should be streamlined. The hydroelectric plants operating today must be maintained for the future.

Clearly the energy infrastructure in our country is in decline. The transmission lines used to transport electricity around the country are now operating at their maximum and building new ones is next to impossible to do due to a myriad of Federal, State and local regulations. Pipeline construction is similarly difficult in the regulatory environment we see today. Without an investment in infrastructure, improvement, it will not matter how much our supply is increased because it will not be able to reach the users.

Beyond our infrastructure needs, we must increase the supply of energy in this country. When I say energy, I mean all types of energy: oil, natural gas, coal, nuclear, hydroelectric, geothermal and renewables. No one source has the single answer. The domestic oil and natural gas industry must be kept alive and thriving.

Mr. BARTON. Can you summarize?

Mr. WATTS. Environmentally responsible access to Federal lands should be pursued. And let me say in conclusion, we have an energy crisis bearing down on us, and it is our duty to do something about it, and I hope we can look at the Energy Department, all of us can look at a comprehensive national energy policy that will chart a sensible course that can be followed by many for many years to come.

And with that, Mr. Chairman, I thank you.

[The prepared statement of Hon. J.C. Watts, Jr. follows:]

PREPARED STATEMENT OF HON. J.C. WATTS, JR., A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF OKLAHOMA

Good afternoon... Chairman Barton and members of the subcommittee, thank you for the invitation to testify before you today on an issue that is critical to the na-

tional security and continued prosperity of this great nation. The issue I speak of is the need for a comprehensive National Energy Policy that will ensure that the standard of living we enjoy today in America will continue in the future for our children and our grandchildren. The last 8 years has seen a lack of such a policy and it is now time for that to change. It is our duty as Members of Congress and it is our duty as mothers and fathers to step forward and provide the necessary leadership on this critical issue.

The energy issue is a National Security issue. Currently, we are importing about 57 percent of the oil used in this country, with 23 percent of that coming from the Persian Gulf region. Unless we take action, that number is forecast to increase to 64 percent by 2020. By contrast, our total imports were only 35 percent in 1973 when the Arab oil embargo created gas lines here at home. As recently as 1991, we went to war with Iraq not only to liberate Kuwait, but also to ensure Saudi Arabia, the Persian Gulf states, and our European allies that the United States was committed to the security of that region. Unfortunately, the last eight years has seen such a weak-handed foreign policy toward Iraq that a nervous Saudi Arabia is now reaching out towards Iran. Friends, our great country cannot afford to be so vulnerable to the whims of the leaders of OPEC. Our reliance on imported oil weakens our national security and it must be reduced through the implementation of a comprehensive National Energy Policy.

The energy issue is also an economic issue. As the former Chairman of the Oklahoma Corporation Commission—the governing body in Oklahoma that regulates oil and gas, public utilities, and trucking—I am well aware of the importance that energy plays in our economy. Energy is the grease that keeps the large wheels of our economic machine in motion. Without affordable, abundant, and reliable energy available, that machine will slow and eventually halt. We must not allow that to happen. Some people think that our new Information-age economy is less reliant upon energy than our old economy based on manufacturing. Nothing could be further from the truth. All of these Internet computer systems, e-businesses, and software firms require electricity to keep them running. The Internet, and the systems associated with it, consumes approximately 8 percent of the electricity used in the United States. In addition, all of those wonderful things ordered on the Internet still require transportation to reach the consumer. Transportation that is 97 percent fueled by petroleum products. And yes, America does still make products in factories that rely upon energy to light the lights, run the conveyor belts, and heat the building. Energy is essential to the production side of our economy.

Energy is also essential to the consumption side of our economy. There is no greater detriment to consumer confidence than not knowing what your utility bill will be at the end of the month. No working family in America is going to buy a new car, washing machine, or computer when they are uncertain of the cost of their monthly utility bill. Opening your electricity bill should not be like playing Russian roulette!

Our current energy problems are no more complex than a lesson of Economics 101. Every person that has ever had an economics class knows the theory of supply and demand. That is our problem. Our supply is dwindling while our demand grows. The Department of Energy predicts a growth in total energy consumption of 32 percent by 2020. 393,000 Megawatts of new electrical generation capability will be required to meet that increased demand. This is the equivalent of constructing 40 new 500-megawatt power plants per year, for the next 20 years. Our oil refinery infrastructure is in no better shape. Currently, our domestic refineries are running at a 93 to 95 percent utilization rate, and there has not been a new refinery built in the United States for the last 20 years. Even if we had the oil, it would be difficult to refine it into usable fuels to run our cars and heat our homes. Clearly we have a problem that we must get to work on before rolling blackouts become a norm in the most powerful and technologically advanced country in the world.

The systematic approach to any problem requires that the problem be fully understood prior to trying to solve the problem. I applaud President Bush for appointing an Energy Task Force headed by Vice President Cheney and I applaud Senator Murkowski and my friends in the Senate for their leadership on this issue. I especially applaud your leadership and Chairman Tauzin's leadership on this issue. Now is the time for us to assume the mantle of leadership and move forward on this critical issue.

We must increase the supply of energy in this country. When I say energy, I mean all types of energy: oil, natural gas, coal, nuclear, hydroelectric, geothermal, and renewables. No one source has the single answer. The domestic oil and natural gas industry must be kept alive and thriving. Measures such as the Independent Energy Production Act, H.R. 805, which I co-sponsored and was recently introduced, helps those independent and marginal well producers weather the ups and downs of the

market. A look at environmentally responsible access to Federal lands should be pursued. Coal is abundant in the United States and currently serves as the fuel for 51 percent of our electrical generation. Clean coal technology needs to be supported. The nuclear industry that provides 20 percent of our electrical generation capability has been stagnant for years, but offers the potential for large amounts of emission-free electrical power. The siting and permitting process required of the nuclear industry should be streamlined. The hydroelectric plants operating today must be maintained for the future. Renewable sources such as geothermal, solar, wind, and others offer great promise for the future. Continued support of these developing energy sources will secure our future.

The American demand for energy is large and growing. While conservation will never solve our problems, it will certainly go a long way to help. We can probably all remember the cars of the 1970s that achieved 5 miles per gallon. Today, the family mini-van gets 25 miles per gallon. When I was in high school, I remember every light switch had a sticker on it reminding us to turn out the light when we left the room. Today, I see office buildings here in Washington D.C. ablaze with lights at 10:00 at night. There is either some very dedicated public servants working late, or they simply forgot to turn out the lights on their way out. We have become a nation of "super-consumers" who believe that energy will always be available if we are willing to pay a fair price for it. The people in California have learned a different lesson. We have not yet reached the maximum efficiencies that can be reached. Vehicles, appliances, electronic devices, homes, buildings, and heating systems can all be made for efficient. Programs to assist low-income people to weatherize their homes should be supported. We as the government need to lead the way by establishing rigid energy conservation programs in government office buildings and in the fleets of vehicles that governments at all levels operate. Industry should be encouraged to replace old inefficient systems with new, more efficient systems. Great gains can be made in energy conservation when it becomes economically viable. We should take measures to make this happen.

Finally, the energy infrastructure in our country is in decline. I have already mentioned that no new refineries have been built in the United States in the last 20 years. Additionally, no construction permits for nuclear plants have been granted since 1979. The transmission lines used to transport electricity around the country are now operating at their maximum and building new ones is next to impossible due to a myriad of Federal, state, and local regulations. Pipeline construction is similarly difficult in the regulatory environment we see today. Without an investment in infrastructure improvement, it will not matter how much our supplies increase, because it will not be able to reach the users.

In conclusion, we have an energy crisis bearing down on us and it is our duty to do something about it. While the free and competitive market can solve many of our problems, there is also a role for government. The government helped create the problems we now face, so we in the government must now work with the industry to solve these problems. The solution will not happen overnight. There will be bumps in the road. However, the development of a comprehensive National Energy Policy will chart a sensible course that can be followed for many years to come. The American people are counting on us.

Thank you.

Mr. BARTON. Thank you. And your experience at the State level on the Oil and Gas Commission in Oklahoma will be invaluable as we put this policy together. I understand you have to go to a meeting at 3. So anytime you need to leave, feel free to do so.

Now, welcome to a member of the subcommittee and the full committee, Congressman Ganske. Your statement is in the record. You are recognized for 5 minutes to elaborate.

**STATEMENT OF HON. GREG GANSKE, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF IOWA**

Mr. GANSKE. Thank you, Mr. Chairman. Well, as we look at a national energy policy and as we are looking as a committee at the bill, an energy bill, it is clear that we need to get adequate supplies of natural gas and oil and to reduce our dependence on imports, as my colleague J.C. Watts has just talked about. I think we also need to focus on renewable sources of energy, and that is mainly what

I want to talk about and provide the committee with an example of how regulations can run amok and can prevent us from using some of our cleanest sources.

It is no surprise that I have been strongly in favor of renewable energy sources like ethanol, along with colleagues such as Mr. Shimkus on the committee. But I want to focus on a situation that really has to deal with one of the main problems the committee will be facing, and that is the NIMBY situation, the “not in my backyard” syndrome that is, I think, preventing us from developing new sources, but also the sources for transportation of both natural gas and the location of new sources. And so I am going to provide the members of this panel with an example from California, and I know my California colleagues may be interested in this.

There is a recent example, as an example of the obstacles to new generation, it is the failure to build a geothermal plant on U.S. Forest Service land at Telephone Flats in northern California near Medicine Lake.

With the written consent and support of the Forest Service, the Bureau of Land Management leased these lands to private companies in 1981 pursuant to the Geothermal Steam Act of 1970 which was passed by Congress to ensure and encourage the BLM to lease federally owned geothermal resources for commercial production and use.

The proposed geothermal plant, while on Federal land, is hardly in an area that hasn't seen other uses. In the immediate area are paved grounds, developed campground and picnic areas, numerous privately owned cabins, a boat ramp and an active pumice mine. Motor boats are used regularly in the summer. Snowmobiling is a major activity in the winter, and substantial logging has occurred and continues to occur in that area.

The Forest Service and the BLM compiled numerous documents for this project, covering the range of environmental acronyms. In its first environmental assessment of 1981 the Forest Service concluded that, “geothermal exploration will not create any environmental impacts which cannot be avoided.” As a result, developers constructed numerous roads and well pads at the site and drilled several dozen test wells to assess the commercial viability of the geothermal resource.

The two Federal agencies completed a supplemental environmental assessment in 1984 and approved additional leasing, noting contrary to, quote, coal, oil and gas-fired electric generating plants, geothermal power is one of the few alternatives remaining capable of contributing to energy demands without creating serious environmental impacts, unquote.

When a geothermal developer proposed further exploratory drilling in 1995, the BLM and Forest Service prepared another environmental analysis and issued a finding of no significant impact to the environment, approving the project.

The company then submitted its plan of operation in 1997 to construct and operate its geothermal plant. So the agencies prepared an environmental impact statement. The draft and final EIS adopted by the agencies approved proceeding with the project, with certain mitigation measures. But both reports concluded that denying the project would conflict with the company's leasing rights.

While everything seemed on track to approve this environmentally friendly geothermal plant, then the problems began. The preferred route for the transmission line and access road were found to be unacceptable because forestland would be disturbed. The second alternative, a much longer transmission line, was also found to be unacceptable because of its possible impact on a nesting area, although mitigation measures were readily available. And one of the three native American tribes in the area complained that the entire project would interfere with what they described as a sacred area of vision quests, although the other two tribes did not oppose the project.

After nearly 4 years of study, the record of decision which was finally issued last year, turned down the project, citing, "the need to protect the visual and cultural values associated with the uniquely and highly significant historic properties of Medicine Lake." In a prime example of bureaucratic statement of the obvious, quote, selection of the no action alternative was the most effective measure to eliminate the impacts on the cultural and social environments—

Mr. BARTON. Could the gentleman summarize, please?

Mr. GANSKE. To summarize, Mr. Chairman, after 20 years, no geothermal plant, and a clear lack of a national energy policy, leaving California facing an electricity crisis. This was an opportunity to bring 50 megawatts of clean renewable electricity to 50,000 homes in power-starved California. It didn't happen. The developer followed every rule and regulation. The judge has already told the government not to bother trying to dismiss this case, and we are left without a very clean source of energy, and it all relates to "not in my backyard." we need to do something to fix this.

[The prepared statement of Hon. Greg Ganske follows:]

PREPARED STATEMENT OF HON. GREG GANSKE, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF IOWA

America needs a comprehensive energy policy. You don't need to look far from home to realize the challenges we face. My constituents face energy bills this winter two or three times the rate of a year ago. A national energy policy might not prevent such price surges, but I feel it would go along way toward tempering them.

We need legislation to provide adequate supplies of natural gas and oil and to reduce our dependence on foreign imports. But we must also focus on renewable sources of energy.

One of my first initiatives this year was to author bipartisan legislation to promote the use of ethanol. Twenty-six Members, from both parties, joined me in introducing the "Clean Air and Water Preservation Act of 2001" to call for an end to the use of MTBE. MTBE is a chemical used to decrease automobile pollution and to improve air quality. Unfortunately, it is also a ground water contaminant. The Environmental Protection Agency warns it may even cause cancer. My legislation phases out the use of MTBE and replaces it with ethanol which burns cleaner, without harming our water away as Pennsylvania and Florida have joined me in cosponsoring the legislation. Even though, they don't grow supply. The bill is good public policy, which is why members from as far very much corn in those states, they recognize ethanol is a cleaner fuel alternative. Americans should not have to face a false choice between clean air and clean water. With corn based ethanol, we can have both.

In addition to ethanol, we must also include hydroelectric power, solar power, wind generation, biomass, geothermal power and measures to promote conservation and innovation. I feel very strongly about renewable sources, but they alone are not the solution. We also need to look at developments in "clean-coal" technology, and as I mentioned previously, we must ensure our domestic supplies of natural gas and oil are sufficient.

It is not enough just to talk about renewable resources, we have to create an environment that fosters their development. We must remove obstacles and champion them to make them an important player in a diversified energy mix.

One recent example of the obstacles to new generation is the failure to build a geothermal power plant on U.S. Forest Service land at Telephone Flat in northern California, near Medicine Lake. With the written consent and support of the Forest Service, the Bureau of Land Management (BLM) leased these lands to private companies in 1981 pursuant to the Geothermal Steam Act of 1970, which was passed by Congress to encourage the BLM to lease federally owned geothermal resources for commercial production and use.

The proposed geothermal plant, while on federal land, is hardly in a pristine area. In the immediate area are paved roads, developed campground and picnic areas, numerous privately owned cabins, a boat ramp, and an active pumice mine. Motor boats are used regularly in the summer, snowmobiling is a major activity in the winter, and substantial logging has occurred and continues in the area.

The Forest Service and BLM compiled numerous documents for this project, covering the range of environmental acronyms. In its first Environmental Assessment in 1981, the Forest Service concluded that "geothermal exploration will not... create any environmental impacts which cannot be avoided." As a result, developers constructed numerous roads and well pads on the site and drilled several dozen test wells to assess the commercial viability of the geothermal resource.

The two federal agencies completed a Supplemental Environmental Assessment in 1984 and approved additional leasing, noting that, contrary to "coal, oil and gas fired electric generating plants... geothermal power is one of the few alternatives remaining capable of contributing to... energy demands without creating serious environmental impacts."

When a geothermal developer proposed further exploratory drilling in 1995, the BLM and Forest Service prepared another environmental analysis and issued a Finding of No Significant Impact to the Environment ("FONSI") approving the project. The company then submitted its Plan of Operation in 1997 to construct and operate its geothermal plant, so the agencies prepared an Environmental Impact Statement ("EIS"). The draft and final EIS adopted by the agencies approved proceeding with the project, with certain mitigation measures, but both reports concluded that denying the project would conflict with the company's lease rights.

Everything seemed on track to approve this environmentally friendly geothermal plant. Then the problems began. The preferred route for the transmission line and access road were found to be unacceptable because forest land would be disturbed. The second alternative, a much longer transmission line, was also found to be unacceptable, because of its possible impact on a nesting area, although mitigation measures were readily available. And one of the three native American tribes in the area complained that the entire project would interfere with what they described as a sacred area of "vision quests." Although the other two tribes did not oppose the project.

After nearly four years of study, the Record of Decision, which was finally issued last year, turned down the project, citing "the need to protect the visual and cultural values associated with the uniquely and highly significant historic properties in the Medicine Lake" area. In a prime example of a bureaucratic statement of the obvious, "the selection of the No Action Alternative was the most effective measure to eliminate the impacts on the cultural and social environments in the... area."

The result after 20 years? No geothermal plant and a clear lack of a national energy policy, leaving California facing an electricity crisis. Here was a golden opportunity to bring 50 megawatts of clean, renewable electricity to 50,000 homes in power-starved northern California. It didn't happen. California will continue to experience blackouts. The developer followed every rule and regulation. It paid dearly for the geothermal lease rights, and it's now in court seeking damages from the U.S. Government of at least \$50 million—and the judge has already told the Government not to bother trying to dismiss the case.

California's experience in trying to build a geothermal plant is only one example of the obstacles new energy sources face, but I hope it is an instructive one as we work to build a national energy policy that is comprehensive, inclusive and designed to build a bridge to an America which is secure in its energy needs. Thank you Mr. Chairman.

Mr. BARTON. We thank the gentleman. If we could let the whip come forward, Mr. DeLay, and let him go and then we will, I don't know—Doug, are you senior to Mr. Stenholm? Which of you all are the senior man?

Mr. BEREUTER. We came in together.

Mr. BARTON. So we go by alphabetical order or Texas order. Which do we do here?

Mr. STENHOLM. Mr. Chairman, if I might, I will just submit my statement for the record and save you 5 minutes because I have to be someplace at 3 o'clock.

Mr. BARTON. Well, I was actually looking forward to listening to you. We will go with Mr. DeLay and if Charlie wants to stay for 5 more minutes, We will be glad to go with Mr. Stenholm.

Mr. DELAY. I will be glad to defer to him if he has to go.

Mr. BARTON. Well, then let's let Congressman Stenholm go right now, then DeLay and Bereuter.

So, Congressman Stenholm, you are recognized for 5 minutes, if you wish it.

**STATEMENT OF HON. CHARLES W. STENHOLM, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. STENHOLM. This will cost me big time, Mr. Chairman.

Mr. BARTON. Just a vote on the tax bill or something.

Mr. STENHOLM. Thank you, Mr. Chairman. I will indeed summarize my comments and I thank you for holding this hearing. I thank this committee for making an effort once again for developing a national energy policy, something that I have been interested in for 22 years. And I believe this year, and this Congress with this administration, we are going to get it done.

You know, I represent not only the cotton patch but also the oil patch. And, you know, there is an old saying in agriculture as well as the oil patch, and that is low prices always bring high prices. And in my district when prices were at \$10 dollars a barrel and \$2 per thousand cubic feet of natural gas, no one, including my own constituency, was concerned about the low prices. But my constituency is no different than California or any other State today. The high prices that we have now have become rather disruptive to home owners and agriculture, et cetera, and it is important that we begin to focus on the solution. We know what the problem is—Mr. Watts outlined the problem very very well. Now what we need, we need improved access.

Mr. Ganske stated a moment ago, when most of the remaining natural gas to be found in the United States lies on land owned by the United States taxpayers, it is time for us to begin having access. We know with modern technology that we can in fact develop safely, environmentally sound oil and gas production, coal production, all other sources of energy. It can be done and it is time for the "not in my backyard" syndrome to end.

Improved technology requires research and I hope that in our budget deliberation this year we will provide for continued research and development of finding even newer and better ways to develop found energy. Consumer needs must be taken into consideration and programs like LIHEAP do need to be fully funded in order to take care of the short-term problem.

We, as part of a national energy policy, need to be looking at alternative energy sources, and I come to you today as ranking member of the House Agriculture Committee. I want to share with you the impact it is having on agriculture. You know this, everyone

should know this: High prices for natural gas electricity are causing many farmers to go to dry land farming because you cannot afford to produce food and fiber with these costs and sell it for what we are having to sell our agriculture products.

I have been working for the last several years on developing a partnership between the oil and gas industry and agriculture, because you cannot produce food and fiber without oil and gas. You cannot produce oil and gas without food and fiber, and therefore it needs to be a natural partnership.

We all have our environmental concerns, we all have those who believe that somehow, some way, we can produce in abundance without drilling, without building power plants, or without doing any of the things that promote new sources. However, I am happy to say to you today that we are on the verge of building meaningful kinds of coalitions.

I believe that it is going to be very possible this year to get the kind of bipartisan support that we do need to do all of the things necessary in developing alternative energy sources. Ethanol, I support. I didn't used to support it. I have done a 180 degree turn-around because it was very difficult for me to convince my independent oil and gas producers that having the government subsidize their competition when they were going broke. I couldn't do that. But now we are finding a realization we need to develop all of the energy sources we have in this country and therefore, working together, we can do so.

I also encourage one thing additional and that is to take another look, which so far the Ways and Means Committee has not done, at using the Tax Code to provide incentives for domestic oil and gas producers, as well as developing alternative energy sources. That is not in the President's proposal. That is not in anybody's proposal that I am hearing talked about that will fit within the number we are talking about. That is why some of us are having a little difficulty with the manner in which we are going about our budget business, and that is something we will talk about another day.

But I thank you. Again, I appreciate the majority whip for his indulgence with me today. I know it will, in fact, cost me dearly, but it will be a price I will be more than willing to pay if he and I are working together on that, which, Mr. Chairman, you and he and a lot of other folks in this room would like to see done. I thank you very much.

[The prepared statement of Hon. Charles W. Stenholm follows:]

PREPARED STATEMENT OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF TEXAS

Thank you Mr. Chairman, and I thank the members of the committee for allowing me to come and be here today. I commend you for holding this hearing today on the development of a national energy policy. I have become increasingly concerned about this Country's lack of a national energy policy and what impact that failure has on both producers and consumers. The state of our energy industry has far reaching economic, geographic and political ramifications and we ignore it at our own peril. My hope is that this hearing can begin a process of developing a comprehensive national policy for this vital industry.

CURRENT CONDITIONS

Cold weather and ever-hotter gas prices have meant an expensive winter in Texas. The pinch, which consumers have felt in both electric and gas bills is, in

part, due to supply and demand as well as to the weather. Gas prices remained static for several years, hovering in the \$2 per thousand cubic feet range. That, along with oil prices that remained low as well, discouraged drilling.

Oil Production

Oil prices, on a long slide, dipped to \$10 and under in late 1998 and early 1999. The average dip in oil prices lasts about six months, and this recent one lasted three times as long. The price collapse forced many oil and gas companies to sell equipment, layoff employees, and shelve exploration and production plans. A number of energy companies went out of business as a result.

In my District, the 17th District of Texas, which also is known as the "oil patch," claims for unemployment from the oil and gas industry quadrupled from 1,171 to 4,730 between December 1997 and 1998. During this time, the lost oil wellhead value dropped \$5.79 million and the value of oil to the Texas economy dropped almost \$1 billion.

The number of producing wells declined by 2,855 during this time as well. In my home county of Jones, oil production in December 1997 was 83,706 barrels, in December 1998 it was 69,966 barrels, and in December 1999 it had declined to 58,534 barrels. That's a decline of 25,172 barrels per month from December 1997 to December 1999, or a decline of 30%.

Oil production in the United States is on the decline as we are operating from a mature resource base that makes the cost of production high as evident in Chart 1 from the Energy Information Administration. Total domestic crude oil production has declined from 8.7 million barrels per day in 1986—the first oil price collapse—to 5.9 million barrels per day in 1999. We must recognize that a healthy domestic oil production industry is also essential for a healthy domestic natural gas industry, because they are inherently intertwined.

Gas Production

Much of the nation's natural gas comes from oil wells. Many of the nation's independent producers, particularly hard hit by the industry down turn, focused on finding natural gas. When prices are below the cost of exploring and producing crude, these small independent producers cannot stay in business, causing a ripple effect throughout local communities as schools and hospitals in Texas rely on a strong oil and gas industry for revenues. Over the past several years, we warned that critically low prices have the potential to turn into a price shock. Unfortunately, this is a lesson that we should have learned many times over in the last two decades. Production of both oil and gas declined in 1999 and, despite high prices paid to producers now, has not climbed to pre-collapse levels.

As indicated in Chart 2, oil and natural gas producers are responding. In April of 1999, only 126 rigs were drilling for oil and 362 rigs were drilling for natural gas, nationwide. By January 2001, rigs drilling for natural gas more than doubled with 878 rigs in production and the rig count for crude oil double as well (240 rigs in production). However, wells generally take three months to a year to come on line, so, with temperatures lower than normal nationwide, prices likely will not go down significantly for several months.

Despite a doubling of rigs in production, demand for natural gas is far out-weighting supply. According to a study conducted by the National Petroleum Council, the natural gas demand will increase by slightly more than 30% over the next decade (see Chart 3 submitted with this testimony). The U.S natural gas demand has grown from 19 Thousand Cubic Feet (TCF) in 1990 to approximately 22 TCF in 1998, or about 2% per year, and has continued to represent about one quarter of the nation's fuel needs.

Some may see it as a blessing that we are moving out of a season of high winter heating costs but, unfortunately, this will not alleviate the price pinch as we are moving into the spring and summer months with an average increase in transportation and cooling costs.

LOOKING FORWARD

If ever there was a time of dramatic demonstration, the compacted experience of the last three years with its highs and lows illustrates the need for our Nation to take responsibility of its energy future. We do need a free market for the production of energy, but it cannot be a "free" market dominated by foreign producing countries that do not necessarily have our best interests at heart. Former Senator Lloyd Bentsen of Texas once said that when America imported more than half of its crude and petroleum products, it would have reached a peril point. We are now there!

In formulating a national energy policy, it must be in the context of a continuously improved understanding of how energy demands of the 21st Century challenge

the energy infrastructures of the 20th Century, of how the new economy is affecting the competition for the capital needed to improve and upgrade our energy infrastructures, and of how the government's incentive structure and statutory frameworks should evolve to meet emerging energy needs. As policymakers, we can focus on the role of oil and gas in power production, producer incentives—including making more federal lands available and access to capital using tax incentives (an issue that the Ways and Means Committee should consider)—and conservation measures. And the impact of price on demand has not come to its full effect. The combination of increased production and price-induced conservation might balance supply and demand at a more comfortable price level.

Improving Access

At the same time we promote protection of our treasured environments as a high priority, it is imperative that we also consider enhancing our recovery and wildcat exploration by examining our federal lands, both onshore and offshore, for possible responsible exploration. From 1997 to 1999, oil well completions for drilling for new reserve declined by 54%, but by providing financial incentives and access to capital to increase domestic oil production and exploration, we can encourage the discovery of new domestic oil and gas reserves. The Bureau of Land Management oversees 264 million acres of Federal land and 300 million acres of subsurface mineral resources. (Refer to Chart 4) These lands contain subsurface resources amounting to eight percent of the natural gas and five percent of the crude oil produced annually, in addition to resources like coal, forest products, grazing forage, and rights-of-way for pipelines and transmission lines. Of the total \$1.4 billion in annual revenues these lands bring, nearly \$835 million (60%) is generated by royalties, rents, bonuses, sales, and fees from oil and gas operations. The total direct and indirect economic output of oil and gas production is estimated at nearly \$12 billion annually.

Chart 5, which I have submitted with this testimony, depicts resource estimates in restricted areas in the lower 48 states of the United States where enhanced, environmentally sound production could occur if these areas were to be opened up to drilling. Access to the resource base and to rights of way for infrastructure is critical for sustainable supply. Chart 5 estimates that slightly over 200 TCF, or 15% of the Lower 48 unproved resource base, is either off limits or is available with significant restrictions.

Of the almost 1,500 TCF of the Lower 48 resource base cited in Chart 5, approximately 47% is owned by the Federal Government. Offshore drilling moratoria have virtually closed activity in the Eastern Gulf, Atlantic and Pacific coast waters, all under Federal jurisdiction. Policy makers need to understand the importance of this resource base in meeting the nation's growing gas demand.

Chart 6 shows the decline profile for gas wells for their given year of completion—where the younger the vintage, the sharper the rate of decline. There are two key reasons for this increasing rate of decline:

- 1) The new field discoveries tend to be smaller in size; and
- 2) Drilling and completion technological advances have enabled higher flow rates, resulting in shorter reserve lives versus older vintages.

This further indicates that drilling rates and better access to lands will have to increase to meet projected demand.

Skilled Workers

With increased drilling comes an increase in the need for skilled workers to build and run rigs used in production. The oil and gas industry has been experiencing a skilled worker shortage for some time. This shortage is a direct philosophical product of the volatility found in the oil and gas industry. By stabilizing the market, skilled workers are more likely to stay in the business instead of seeking jobs where the pay is steadier and the risks are much less. Additionally, we should consider utilizing our colleges and universities to establish federally qualified training centers to ensure workers have the best training and skills to safely operate drilling equipment.

Improved Technology

It is important to note that technology has advanced to a point that we can assess and develop resources in these areas more efficiently, and with less environmental impact, than ever before.

In recent decades, new technologies have been key to finding and extracting recoverable oil and gas resources—located in deeper and more remote locations, in more challenging geologic formations, in more difficult terrain, in smaller pockets, under sensitive wetlands, and far out at sea.

By maintaining federal funding in research and development for technological improvements either at high-end research labs or as a supplement to kick-start industry venture capitalism, we could really help bring new initiatives along like we have seen in the past with horizontal drilling, new methods to plug wellheads, and improved drill bits. Our nation has come to expect the benefits of fossil-based fuels and products, but also a cleaner environment. Ongoing research and development will be the lead force in continuing to protect the environment during exploration and production. Great strides have been made, but more opportunities remain.

Consumer Needs

We need to consider measures to help restore market stability with domestic crude oil and natural gas prices maintaining a level where domestic producers can compete in a global market. However, our national energy policy must recognize both producer and consumer issues. We need to consider the use of incentives to encourage consumers to make energy efficient improvements to their homes and purchase energy efficient automobiles as well as further promote and fund the Low-Income Home Energy Assistance Program (LIHEAP).

Alternative and Renewable Energy Sources

As part of a national energy policy, we also need to further improve and expand other avenues of energy, including wind, solar, hydroelectric, and other renewable energy resources as well as alternative sources such as nuclear energy. If we are to achieve energy independence, we must research and develop all sources of energy.

Wind Energy—The U.S. wind industry has successfully financed and built wind plants capable of generating 1700 Mega Watts of power. These plants now produce more than 3.1 billion kilowatts per hour per year. Based on this performance, the industry is developing a corporate structure that has increasing access to some of the same capital markets as electric utilities. Many rural communities, including some in the 17th District of Texas, are taking advantage of the wind's clean energy to provide their electrical needs or for pumping water when they are unable to be tied to a utility grid, lack conventional resources, or simply want to be independent of utility bills. This demand for wind energy is helping expand the industry as well as helping provide a cleaner environment while operating in harmony with farming, ranching, forestry, and other open space operations. Research and development play a key role in advancing wind technology. These organizations include national laboratories and facilities for testing new hardware.

Since the 1980's, wind energy production has increased its efficiency by a remarkable 80%—from 25 cent per kilowatt-hour to 4.5 cents per kilowatt-hour. Through expected equipment and manufacturing efficiencies, the industry anticipates the cost of wind energy will fall to 3 cents per kilowatt-hour or less in the next few years. It is important that we continue to support the wind energy production tax credit (PTC) for this environmentally friendly form of renewable energy that produces no greenhouse emissions.

Solar—Solar resources will remain infinitely available for as long as the solar energy system continues to exist—in other words, for the rest of Earth's history, a period of approximately five billion years. In order to use solar resources, we need continued research and development for improved technologies that can be applied locally. The use of solar resources leads to the operation of countless small-scale installations, involving a shift away from a few large-scale investments towards countless small investments and away from remote delivery of energy towards regional and individual energy subsistence. Solar energy is an important component contributing clean power to the nation's energy mix.

Nuclear—The recent rolling blackouts in California may change forever how the public and policymakers think about U.S. energy policy. Many are comparing the recent energy crisis to that of the 1973 oil embargo—a time when soaring fossil fuel prices revealed the pitfalls of foreign oil dependence. One of the most compelling reasons for the recent focus on energy security is that supply has not kept up with demand. And, as a reliable, low-cost producer of large quantities of base-load power, nuclear energy promises to figure prominently in this important component of the nation's energy security providing emission-free electricity sources.

In terms of public health consequences, the safety record of the U.S. nuclear power industry has been excellent. However, we need to address two major issues if the nuclear power industry is going to grow at a rate comparable to demand. First, we need to address the issue of what to do with the byproducts of nuclear power. There are solutions to this problem that could be responsibly put in place, and it is up to Congress to act on legislative proposals such as Yucca Mountain. Second, we need to continue to streamline the licensing process so that safety and site-related issues are resolved before capital is invested.

AGRICULTURE'S ENERGY NEEDS

I also come before you today as the Ranking Democrat on the House Agriculture Committee. I want to share with you not only the impact that energy price and availability have on agriculture, but also how America's farmers and ranchers can play a role in meeting our energy needs.

As you can see from Chart 7 that is attached to my testimony, agriculture utilized 1.7 quadrillion BTUs in 1998, which equals about 2 percent of the total energy consumed in the United States that year. This chart includes the direct energy consumed in various forms as well as the energy utilized by farmers and ranchers in the indirect forms of fertilizer and pesticides.

Keith Collins, USDA's Chief Economist, recently testified before the Agriculture Committee regarding the state of the U.S. agricultural economy. In his testimony, Dr. Collins indicated farmers' production expenses increased by 4 percent or \$7.6 billion in 2000, and that higher fuel and oil prices accounted for over 1/3 of that increase. To put that increase in perspective, he recounted that farm production expenses had risen only one percent from 1997 to 1999.

Particularly hard hit were farmers who utilize irrigation to produce their crops, since not only were natural gas and electrical prices two to three times higher than the previous year, but drought in many parts of the country forced producers to water more times at that increased cost. This may mean in a few cases that producers who actually had a crop to harvest in some regions of the country may have been worse off than their neighbors who didn't irrigate and had no crop to harvest.

For 2001, cash production expenses are forecast to increase \$1.5 billion to a record level of \$179.5 billion for the sector. Fuel prices are expected to remain close to last year's level, however, the recent spikes in natural gas prices have led to much higher fertilizer prices, which will have a major impact on producers' bottom lines and even what they plant this year.

The recent spikes in natural gas prices have wreaked havoc in the domestic fertilizer industry. While natural gas prices appear to have moderated, albeit at a higher price, and the availability of fertilizer for spring pre-planting application is less in question, there is no doubt that farmers will be paying much higher prices for nitrogen fertilizers this spring. As an example, anhydrous ammonia prices went from an average price of \$200 per ton in 2000 to \$334 per ton at the beginning of January.

As Chart 8 shows, nitrogen fertilizer is utilized on a range of agricultural commodities. Although application rates are lower for rice, soybeans, wheat, cotton and corn, the nitrogen that is applied accounts for 20-30 percent of the cost of production for those crops, as opposed to 5-10 percent of the cost of production for the listed fruits and vegetables.

The increase in natural gas and electrical prices is also impacting the floral and horticulture industries as well as poultry producers who utilize natural gas to heat and circulate air in their greenhouses and chicken houses.

Agricultural producers cannot pass along higher costs. An increase in energy and energy-related input costs not only increases farmers' direct out of pocket expenses, but also results in lower prices from the market as the purchasers of their commodities try to recoup the higher costs they are paying for transportation, processing and marketing.

As Congress has had to pump billions of dollars into the farm economy to prevent disaster, there is no doubt that the picture is not improving in the short term, especially with agriculture's reliance on energy in various forms and the impact that higher energy prices will continue to have on agriculture's bottom line.

HOW AGRICULTURE CAN HELP

American agriculture can provide a ready source of raw materials to help meet our domestic energy needs. I was pleased that "The Biomass Research and Development Act of 2000" was enacted into law during the last session of congress. I hope that this legislation will continue the close working relationship that developed between the Energy and Agriculture Departments over the last several years to continue the research and development of all types of agricultural and forestry products and waste materials into energy sources.

Now the Congress must do its share and continue to fund the ongoing work and new research that needs to be done in the areas ranging from cellulosic feedstock enhancement that would allow the expansion of ethanol production into areas where corn is not as readily available, to finding ways to utilize animal manure for energy production on and off the farm as well as continuing to address the remaining questions in corn ethanol production, such as the transportability issue.

Any national energy strategy must include incentives for additional renewable fuel utilization. Over the last 20 years, we have made great progress in promoting the use of ethanol at both the state and federal level. I believe the time is right to also promote the use of biodiesel. It is a fuel that can be made from vegetable oils (which we currently have a surplus of) as well as recycled oils and animal fats. The fuel has passed vigorous environmental, health and engine testing. Soybean growers have spent over \$25 million of their own money, with little government assistance, to successfully commercialize this fuel.

Biodiesel blends are being used to meet the requirements of the Energy Policy Act (EPACT) due to the efforts of your colleagues here on the Energy and Commerce Committee, Karen McCarthy and John Shimkus. I am told the changes their legislation made in the EPACT program have resulted in biodiesel being used as a flexible, safe way to help meet the requirements of the program. I am also reminded the legislation passed in 1998 resulted from a compromise with the natural gas industry and was supported by most members of the Committee.

This proves to me that our energy policies should be comprehensive and framed to encourage the development and use of many viable fuels. The answers to our energy dependence and power generation problems can best be met by broadening our base of energy resources. I personally feel strongly that fuels like biodiesel and ethanol can be and should be a part of a national energy program.

Additionally, there is a tax situation with ethanol that needs to be addressed by our colleagues on the Ways and Means Committee. Currently those states, mainly in the Midwest, which utilize ethanol the most are penalized in the amounts they receive for highway improvements and construction from the Transportation Efficiency Act for the 21st Century or TEA-21 bill passed by Congress in 1998. I do not believe that we should be penalizing these states for using a homegrown product, corn, to meet their energy needs.

I hope the Committee will be innovative and creative as you shape our country's next energy program. We can no longer rely on the same old policies and program. We must look for additional sources and resources to complement our traditional sources of energy. I look forward to working with the leaders of the Committee to make certain that renewable fuels made from our abundant agriculture and forestry resources are a part of the answer to our energy challenges.

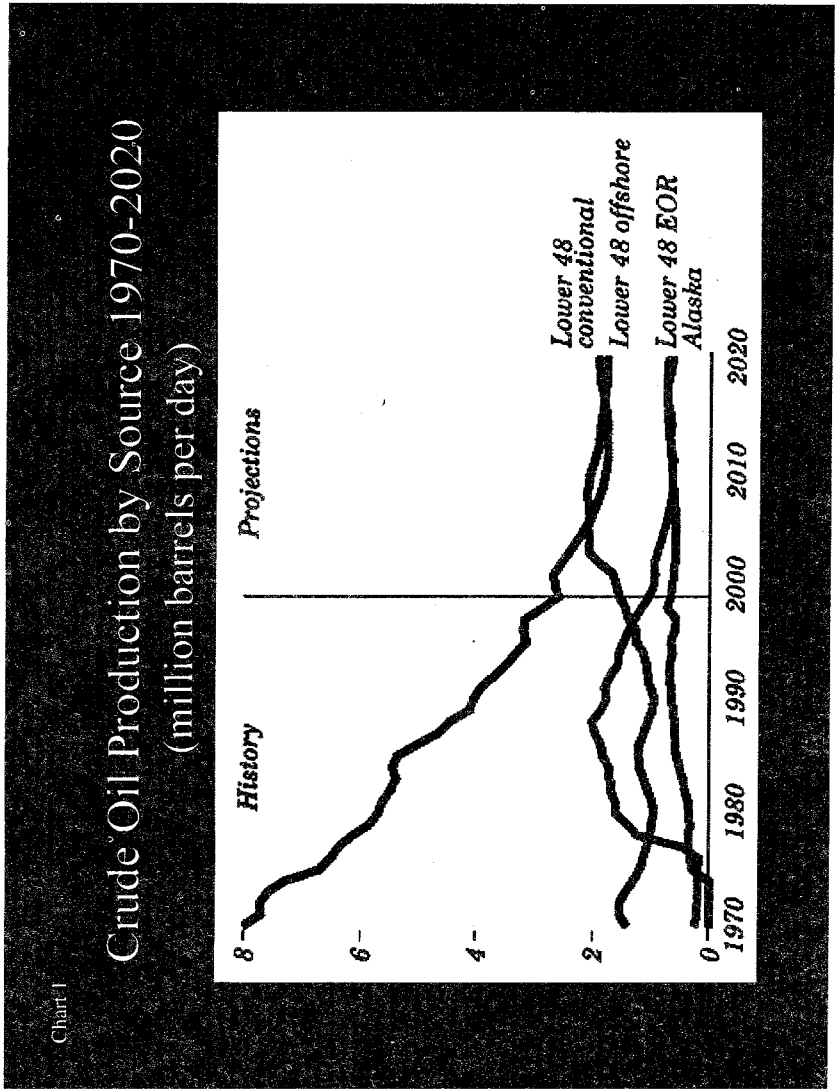
CONCLUDING REMARKS

America needs a balanced-forward-looking energy policy based on the proposals that have been put before this Congress. We need a responsible approach that will infuse our energy sector with both efficiency and competition, seeking to protect America against emergencies in the energy market.

Appendix

LIST OF CHARTS

- Chart 1 Crude Oil Production by Source 1970-2020—*Courtesy of DOE/EIA and DOI*
- Chart 2 Natural Gas Rig Counts—*Courtesy of National Petroleum Council*
- Chart 3 U.S. Natural Gas Demand—*Courtesy of National Petroleum Council*
- Chart 4 Government Lands—*Courtesy of National Petroleum Council*
- Chart 5 Resource Estimates for Restricted Areas—*Courtesy of National Petroleum Council*
- Chart 6 U.S. Production History—*Courtesy of National Petroleum Council*
- Chart 7 Estimated farm energy use, 1998—*Office of Chief Economist/Office of Energy Policy & New Uses, USDA*
- Chart 8 U.S. Ammonia Price—*CF Industries*
- Chart 9 Midwest Anhydrous Ammonia FOB Prices—*Office of Chief Economist/Office of Energy Policy & New Uses, USDA*
- Chart 10 Nitrogen Application Rates—*Office of Chief Economist/Office of Energy Policy & New Uses, USDA*
- Chart 11 Direct energy expenditures as percent of total production expense, 1998—*Office of Chief Economist/Office of Energy Policy & New Uses, USDA (Recent increases in fuel prices would revise these estimates upwards by nearly double since 1998)*



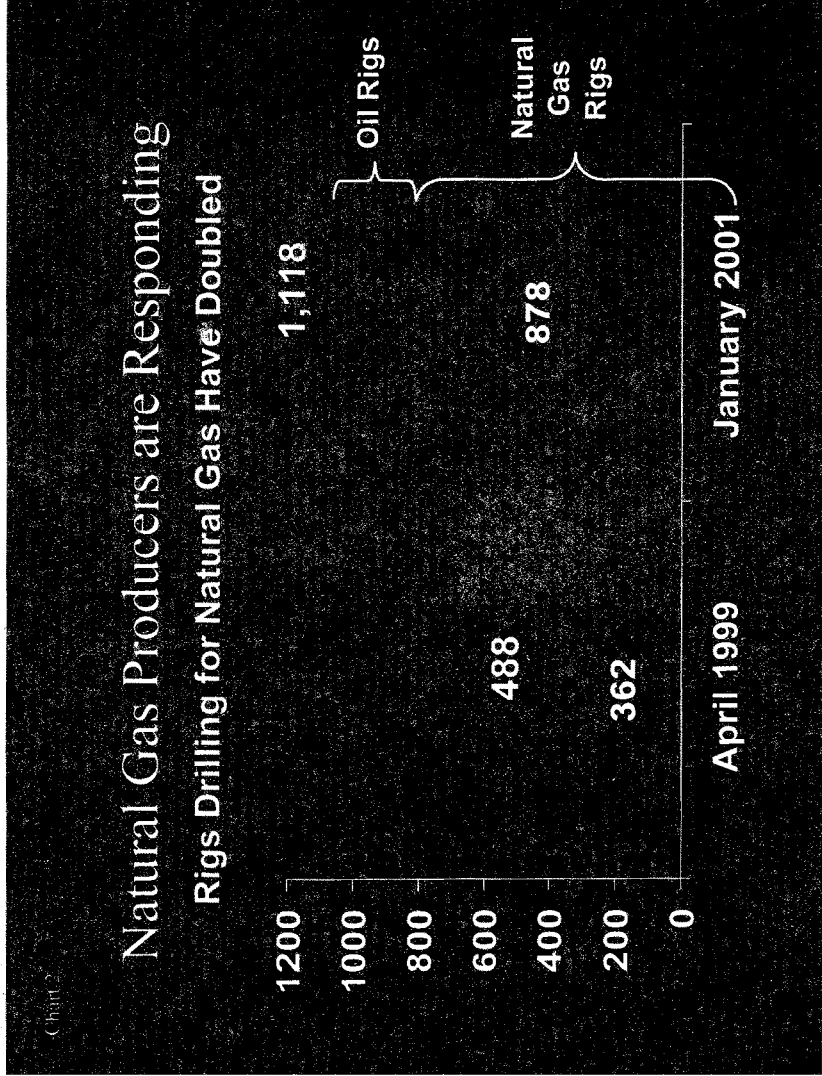


Chart 3

U.S. Natural Gas Demand

Comparison of 1992 and 1999 NPC Study Results

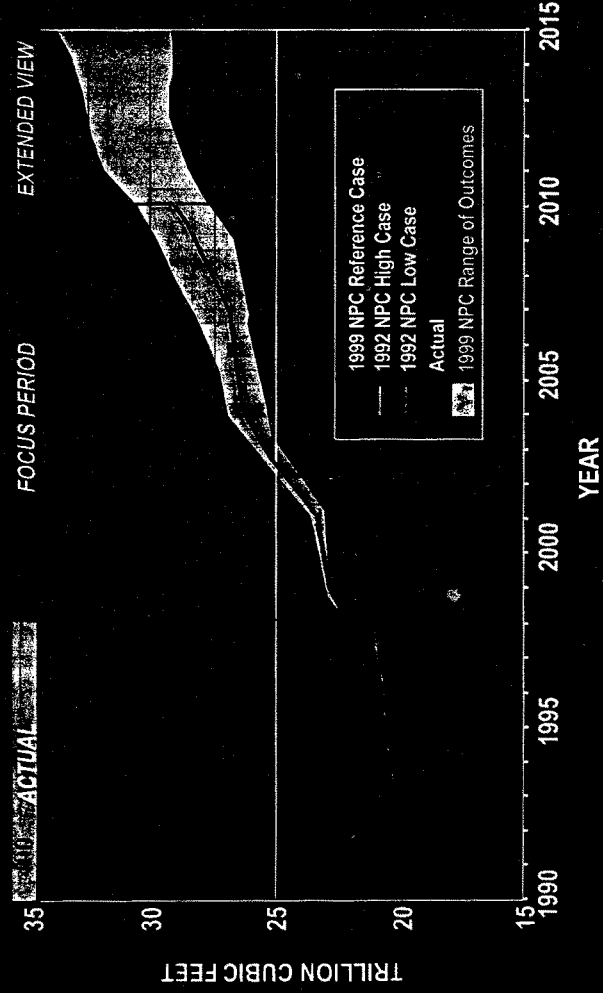
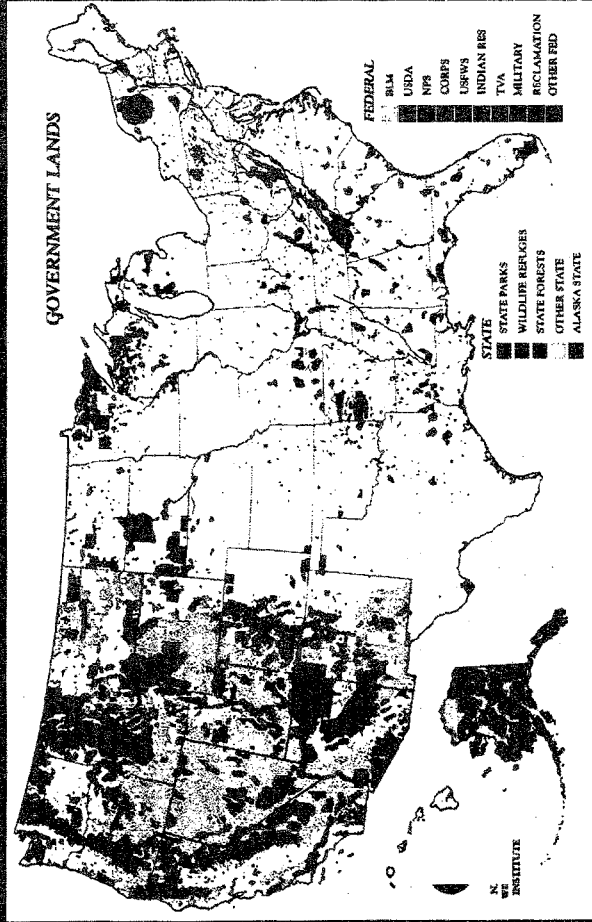


Chart 4

Government Lands



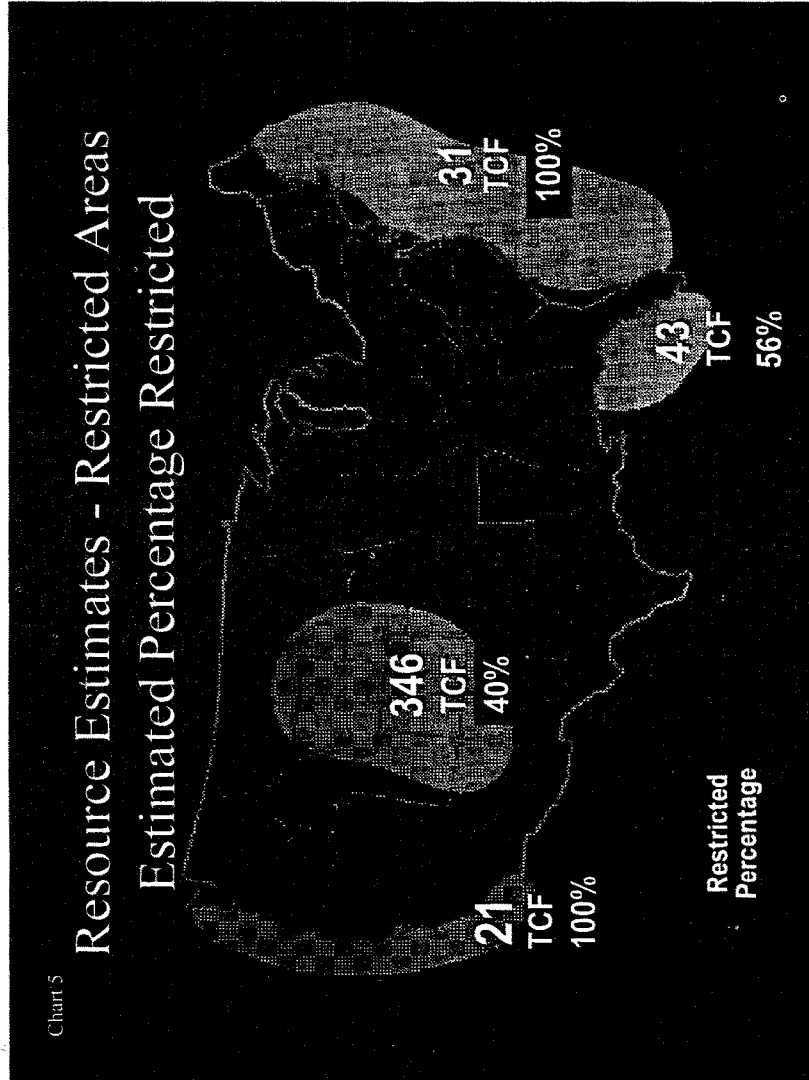
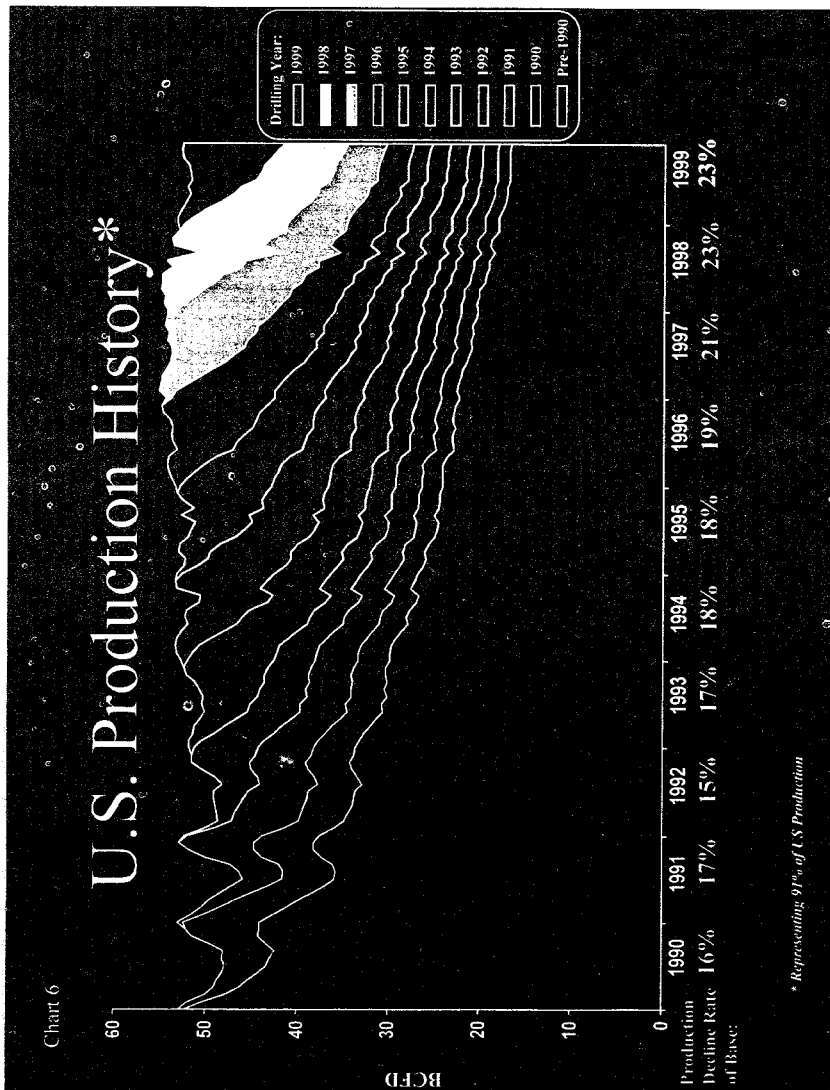
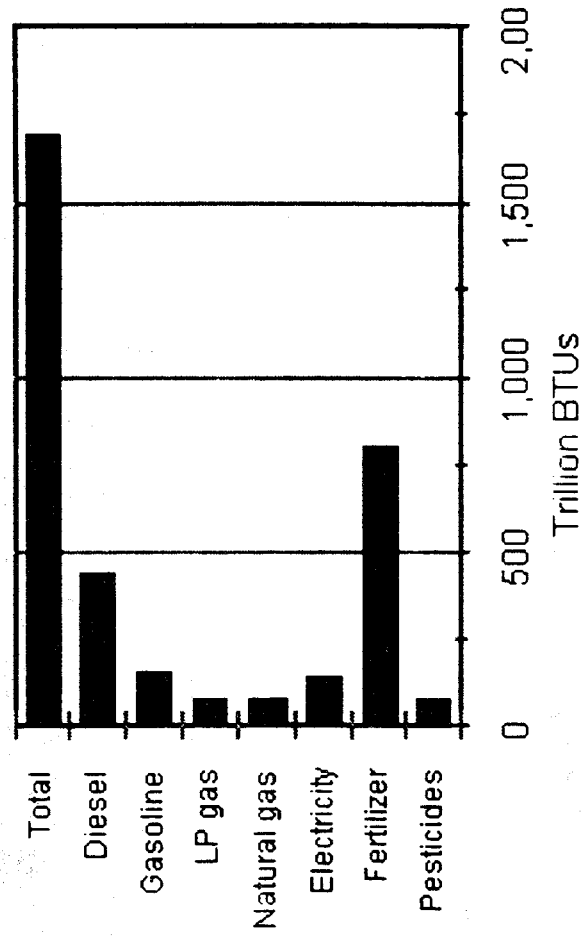


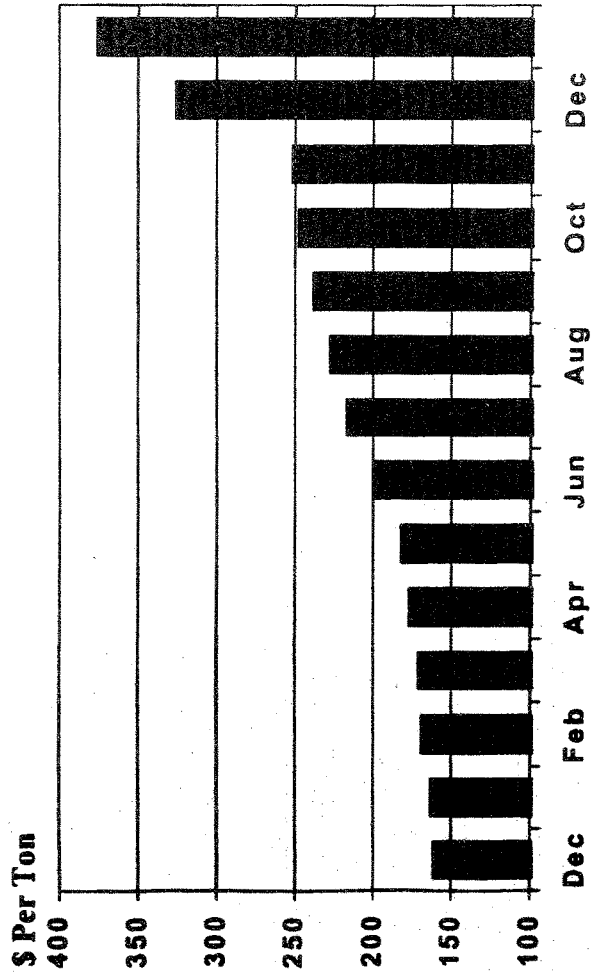
Chart 5



Estimated farm energy use, 1998

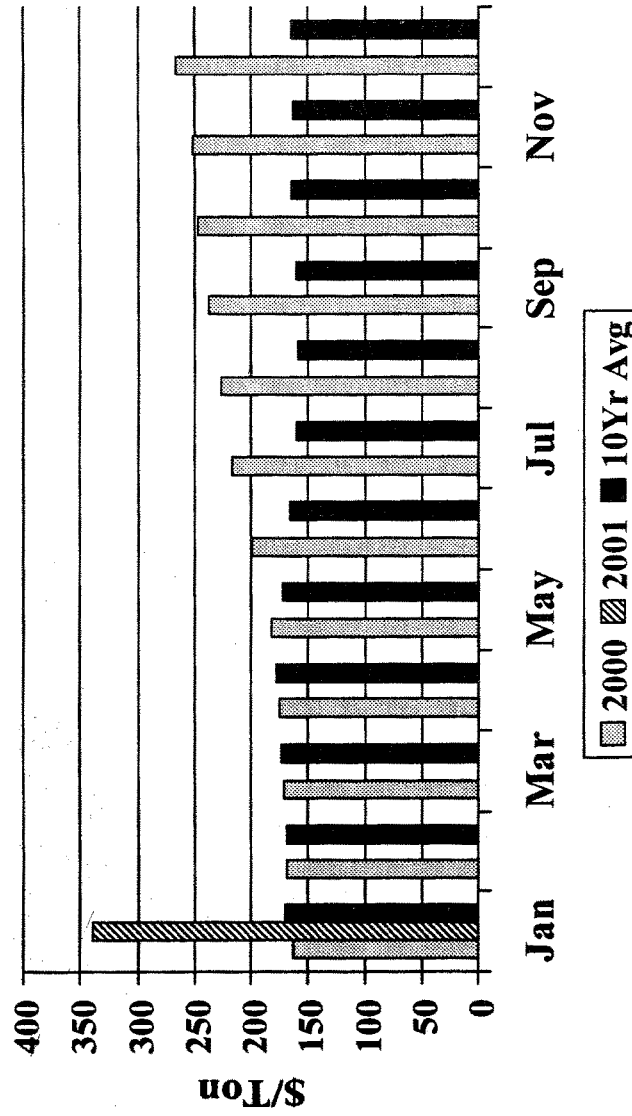


**U.S. Ammonia Price
Corn Belt - Dealer Reference**



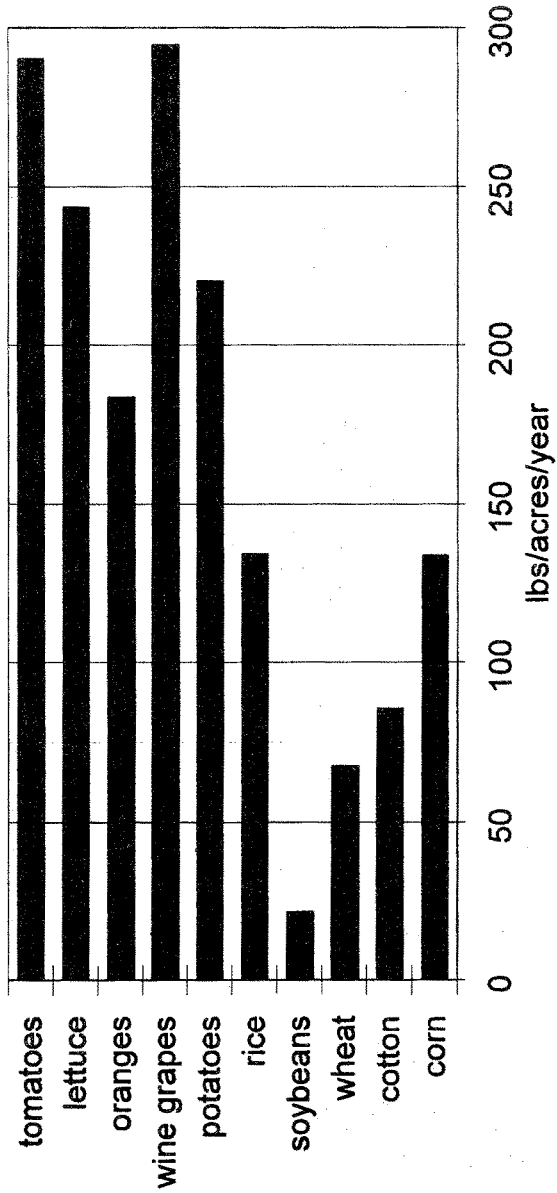
December 1999 - January 2001

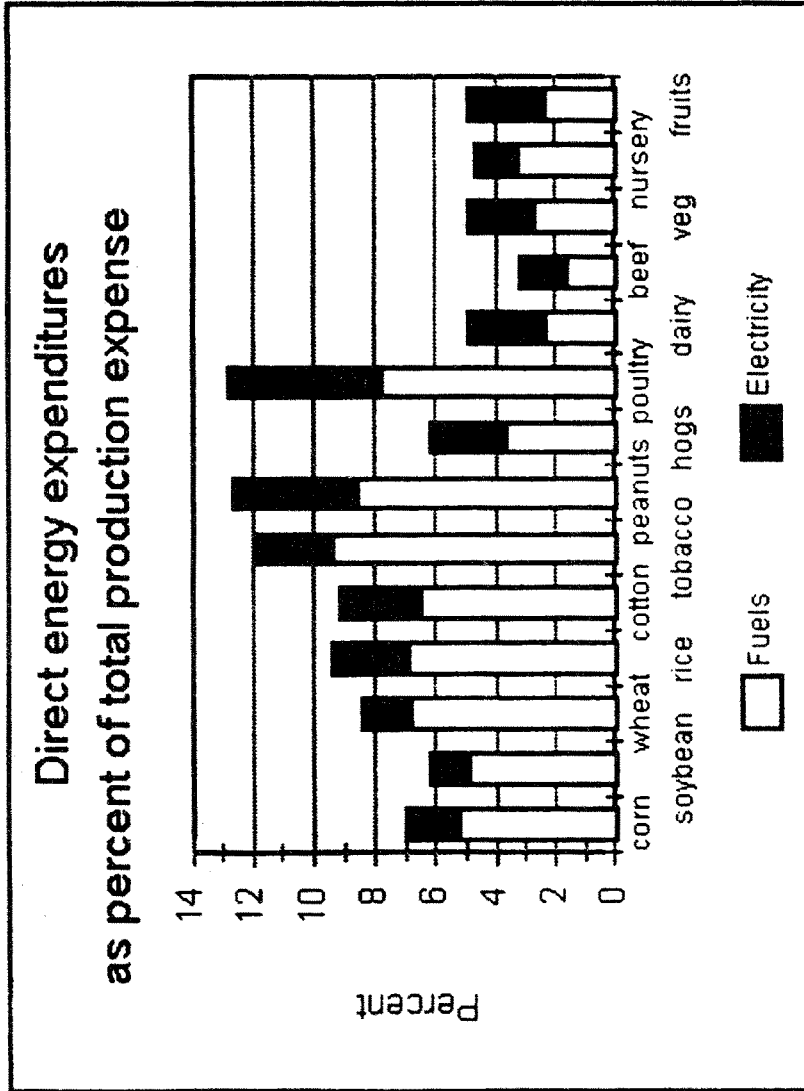
Midwest Anhydrous Ammonia FOB Prices



Source: Green Markets

Nitrogen Application Rates





Mr. BARTON. Thank you. We now go to the distinguished majority whip, who is coordinating the various jurisdictional issues between the committees on energy policy. It is a job that is going to be difficult, but I know that he is up to it.

Your statement is in the record. You are recognized for 5 minutes.

**STATEMENT OF HON. TOM DeLAY, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF TEXAS**

Mr. DELAY. Thank you, Mr. Chairman. I am here representing the leadership, and we are here to help you.

Over the course of the campaign, Mr. Chairman, President Bush insisted that the country needed to make fundamental changes in our energy sector. He pointed out and pointed to warning signs and inefficiencies that threatened the safe and dependable energy supply that our economy and national security demand. Subsequent events have now vindicated the President's perseverance. That is why we are here today.

As we all know, we have serious problems within the American energy sector, and it is past time that we took stock of our position. We have seen things recently that offer a clear position. We have seen things that give us a clear lesson. There are artificial barriers in place that are preventing us from producing the steady, dependable energy supply that the American consumers expect, and this problem has brought consequences, because we must remember that our economic strength depends on our energy security. So it is our job as Congress to remove those barriers.

A great source of pride among the men and women that work for the companies that make up our various energy sectors is the satisfaction that they take in providing a secure dependable energy supply to American families and businesses. Unfortunately, their ability to supply consumers with steady energy at a fair price has been compromised by burdensome regulation and inefficient government policy.

Of course, everyone also wants clean air and water, and fortunately this is not an "either/or" proposition. I am certain that by applying common-sense standards to the restrictions hampering energy development and exploration, we can create both deep and reliable sources of energy and the infrastructure to deliver that energy to our consumers.

Taken together, these improvements will once again provide the energy security Americans want and expect, but first we must face the challenges that lie ahead. The upheaval in California clearly demonstrates that energy issues are not simply a State-by-State problem. California's troubles lay the predicate for a Federal role in enhancing energy security. A comprehensive solution cannot ignore the shortcomings of either energy generation or transmission.

California's supply shortcomings are harming other States, and California is damaging neighboring States in two ways: First, consumers in surrounding States are paying higher rates to subsidize the increased demand caused by California's inability to meet its own needs. Second, California's neighbors are compromising their own energy security by drawing down resources that historically provide the energy needs during periods of peak demand.

For example, States like Idaho traditionally allow their lakes and dammed rivers to rise during the winter and spring to ensure a steady supply of hydroelectric power for periods of peak demand over the summer. This year the mountain States are being forced to squander those water resources to produce power for California instead of storing up water for the dog days of summer. Because when the hot weather hits, California may very well have succeeded in exporting the rolling blackouts and brownouts it brought upon itself to its neighbors.

We now have the technology and the experience to provide energy security for the American people without trading environmental degradation for efficiency, but this will not happen unless we first adopt a comprehensive plan to create a dependable energy supply. What we need is a national energy strategy that considers all of our potential sources of supply and all the challenges that are constraining the market for energy in America today.

I have listed in my testimony, Mr. Chairman, many issues that we have to resolve, and I will just leave that for the record. Many of them have already been talked about, such as expanding our supply by encouraging a variety of sources, increasing our refinery capacity.

I want to say, Mr. Chairman, I represent a lot of the refining capacity, in fact, most of the refining capacity in this country. We have not built a new refinery in 30 years. In 1981, we had 315 refineries. Today, we have only 155, and that has to change.

I also listed many other issues that we have to talk about, including what Mr. Stenholm was talking about. We have to reform our Tax Code.

So on the Speaker's direction as the leadership's energy point man, Mr. Chairman, I am looking forward to working with you, with the chairman of the full committee, Mr. Tauzin——

Mr. BARTON. Who was here.

Mr. DELAY. He is right behind you.

—and the President and Vice President Cheney, my good friend, J.C. Watts, and the committees of jurisdiction, as we work together to develop a comprehensive energy strategy that balances regulation with the imperative for energy security.

I thank you.

[The prepared statement of Hon. Tom DeLay follows:]

PREPARED STATEMENT OF HON. TOM DELAY, HOUSE MAJORITY WHIP

Over the course of the campaign, President Bush insisted that the country needed to make fundamental changes in our energy sector. He pointed to warning signs and inefficiencies that threaten the safe and dependable energy supply our economy and national security demand. Well, subsequent events have now vindicated the President's perseverance. That's why we're here today.

We have serious problems within the American energy sector. And it's past time that we took stock of our position. We've seen things recently that offer a clear lesson: There are artificial barriers in place that are preventing us from producing the steady, dependable energy supply that American consumers expect. And this problem has broader consequences. Because we must remember that our economic strength depends on our energy security. So, it's our job as a Congress to remove those barriers.

A great source of pride, among the men and women that work for the companies that make up our varied energy sector, is the satisfaction that they take in providing a secure, dependable energy supply to American families and businesses.

Unfortunately, their ability to supply consumers with steady energy at a fair price has been compromised by burdensome regulation and inefficient government policies.

Of course, everyone also wants clean air and water. Fortunately, this is not an "either or" proposition. I'm certain that, by applying common sense standards to the restrictions hampering energy development and exploration, we can create both deep and reliable sources of energy *and* the infrastructure to deliver that energy to consumers. Taken together, these improvements will, once again, provide the energy security Americans want and expect. But first, we must face the challenges that lie ahead.

The upheaval in California clearly demonstrates that energy issues aren't simply a state-by-state problem. California's troubles lay the predicate for a federal role in enhancing energy security. A comprehensive solution can't ignore shortcomings in either energy *generation* or *transmission*.

California's supply shortcomings are harming other states. California is damaging neighboring states in two ways. First, consumers in surrounding states are paying higher rates to subsidize the increased demand caused by California's inability to meet its own needs. And second, California's neighbors are compromising their own energy security by drawing down resources that historically provide their energy needs during periods of peak demand.

For example, states like Idaho traditionally allow their lakes and damned rivers to rise during the winter and spring to ensure a steady supply of hydroelectric power for periods of peak demand over the summer.

This year, the mountain states are being forced to squander their water resources to produce power for California instead of storing-up water for the dog days of summer. Because when the hot weather hits, California may very well have succeeded in exporting the rolling blackouts and brownouts it brought upon itself to its neighbors.

We now have the technology and the experience to provide energy security for the American people without trading environmental degradation for efficiency. But this won't happen unless we first adopt a comprehensive plan to create a dependable energy supply. What we need is a *national energy strategy* that considers *all* of our potential sources of supply and *all* of the challenges that are constraining the market for energy in America.

Among the issues we must resolve are:

- Expanding supply by encouraging a variety of sources to produce the energy necessary to meet our growing needs, including oil, nuclear, clean coal, natural gas, and renewables.
- Increasing our refining capacity. We haven't built a new refinery in 30 years. In 1981 we had 315 refineries. Today we only have 155. That must change.
- Providing access to our domestic resources at home to reduce our dependence on foreign supplies. And yes, that includes opening up Alaskan reserves and approving Lease Sale 181 in the Gulf of Mexico. Today the energy industry can extract oil and gas while treading lightly on the environment.
- Developing an adequate system of electricity transmission. We need to not only increase electricity generation by building new plants in underserved states like California, we need to also build the transmission facilities that will create a reliable electrical grid. If we can do that, electricity will become a true commodity and consumers will benefit through enhanced reliability and more competitive prices.
- Reforming our tax code to promote capital investment in energy technologies and infrastructure.
- Streamlining the regulatory process to promote a free and competitive marketplace in pricing, technology, energy efficiency and selection of fuels and energy suppliers.
- Promoting energy technology development and long-range research and development initiatives.

On the Speaker's direction as the Leadership's energy point man, I'm looking forward to working with the President, Vice President Cheney, my friend J.C. Watts, and the committees of jurisdiction as we work together to develop a *comprehensive* energy strategy that balances regulation with the imperative for energy security.

Mr. BARTON. I thank the distinguished whip. I knew we had good staff, but I didn't know they were that good. The committee chairman is staff now.

We are going to go to Congressman Bereuter of Nebraska. His statement is in the record in its entirety.

We recognize you for 5 minutes.

**STATEMENT OF HON. DOUG BEREUTER, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF NEBRASKA**

Mr. BEREUTER. Chairman Barton, Congressman Boucher, members of the subcommittee, thank you for holding the hearing on the concept of national energy policy. I think you are trying to make that concept a reality. Of course, I think almost all of us are totally supportive of that.

I want to bring to your attention just one or two of the particular problems affecting my constituents and State, and then try to move to a couple of solutions that perhaps may not be offered or given much support necessarily by other Members.

I am sure you aware of many of the challenges facing the country. The most immediate energy concern for most of my constituents is a dramatic increase in natural gas prices. Individuals, small businesses, nonprofits are paying hundreds of dollars more per month on natural gas than they did last year. Some of our businesses are on interruptible contracts, which means they may soon have to stop their production lines and other kinds of business activities.

The CRS report that just came out lately, quoting a reputable source, suggests that we have 58 years' worth of technically recoverable natural gas in this country. While the number of wells being drilled has gone up dramatically in the last half of 2000 versus the first half of 1999, we obviously have some big problems.

I have written to Chairman of the Federal Trade Commission, Robert Pitofsky, twice on this subject, in fact early last July, and received what I considered to be only pro forma responses. So I would like to see some attention to this issue. Mr. Stenholm has already mentioned a particular problem in the farm sector, but it goes beyond that, since most of the fertilizer used today is natural gas-based and some of the firms producing it similarly have not produced what is necessary for this spring. So it is one more particular problem faced by the agricultural sector.

Now I would like to make a couple of comments about solutions. I think, of course, that a strong national energy policy has to include an emphasis on renewable sources, such as wind. I don't say this is a huge part of it, but it is an important part of it. I want to make sure that we do not ignore some of those areas as you move ahead. One of them I want you to focus on, if you will, is wind as an energy source. I think it is important as a potential source.

It is important to the rural communities. The source of energy is especially important to the Great Plains region from the Dakotas to Texas, as well as parts of the American West like Wyoming and parts of California. According to the American Wind Energy Association, my State ranks sixth in potential, maybe much higher, according to other sources.

Mr. Chairman, Texas ranks No. 2 in potential source for wind for energy.

Mr. BARTON. A lot of hot air down there in Texas.

Mr. BEREUTER. Yes. Well, Oklahoma has a lot too, but it is mostly in tornadoes.

Quite simply, much more needs to be done to promote the use of wind energy, which I believe is vastly underutilized in this Nation; but at the same time, it is much more likely to soon be cost-effective.

One of the current incentives to promote wind energy is the use of investment in production tax credits. While I agree this is a useful tool, I would emphasize here that these credits, unfortunately, do not provide any benefit for publicly owned electrical utilities. That is certainly an important deficiency, one particularly important to my State since we are the only all public power State in the Nation.

There are several options which could provide public power with incentive to pursue renewable sources such as wind, but others as well. I understand that Congresswoman McCarthy, a member of the subcommittee, is also interested in pursuing legislative options to provide incentives for public power entities to produce more renewable sources of energy, and I would be pleased to work with her and other members of the subcommittee.

Also there are at least several options that could be considered that would provide renewable energy incentives for public power beyond that. One possibility would be to establish a tradable investment and production tax credit program in the Internal Revenue Code for publicly owned electrical utilities that produce electricity from eligible renewable energy projects. Participants in this program could receive credits for electricity generated from wind, solar, geothermal, hydro and biomass, including the conversion of landfill methane gas to energy.

As I approach the last 30 seconds of my time, I want to emphasize that I continue, of course, to be in support of energy-producing from biomass, especially in the ethanol area. It is, I think, one more important way that we can supplement our energy and make us a little less dependent upon foreign sources. Increasing the use of ethanol creates a win-win-win situation for consumers, farmers and the environment. Analysis released last month by renowned economist John M. Urbanchuk, executive vice president of AUS Consultants, found that greater ethanol use also has positive implications for our Nation's economy.

I close by saying, I endorse Congressman Ganske's legislation, which would address the MTBE problem now causing major problems in our groundwater resources.

Thank you very much for listening to my testimony.

[The prepared statement of Hon. Doug Bereuter follows:]

PREPARED STATEMENT OF HON. DOUG BEREUTER, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF NEBRASKA

Chairman Barton, Congressman Boucher and Members of the Subcommittee: I would like to begin by thanking you for the opportunity to present testimony regarding the concept of a comprehensive national energy policy. I commend you for holding this hearing on an issue of such critical importance to the nation. During my testimony, I would like to mention briefly one or two of the particular energy problems affecting my constituents and also offer some specific areas of solutions designed to reduce our dependency on foreign energy sources.

It is obvious that the U.S. is facing problems throughout the energy sector. Each month seems to bring the focus on a new crisis. It's unfortunate that the previous administration displayed such an appalling lack of leadership on developing a comprehensive energy policy which would have led to greater energy self-sufficiency for the U.S. As a result, higher energy costs threaten to slow the economy and cause

hardships for farmers, motorists, businesses and homeowners. Although we have clearly lost much time, it's now important that we examine the causes for the current problems, but more importantly search for both short-term and long-term solutions.

I understand that the previous panel addressed the energy problems which have been afflicting California and other states throughout the West. I would like to emphasize that energy problems do not respect state borders. For instance, the ripple effect has begun to affect communities in Nebraska which use power from the Western Area Power Administration. I encourage the Subcommittee to work to resolve these problems. I would also like to stress that Nebraska is unique in that it is an all public power state and I believe that any energy legislation must take its situation into account.

I'm sure that the Subcommittee is well aware of the many energy challenges facing the country. The most immediate energy concern for most of my constituents is the dramatic increase in natural gas prices. Individuals, small businesses and non-profits are paying hundreds of dollars per month more for natural gas than they did last year. While I believe it would be helpful to review the effectiveness of the Low-Income Home Energy Assistance Program (LIHEAP), it also important for Congress to determine whether other options can be made available for those who do not qualify for this program. More must also be done to encourage the development of a more stable and affordable natural gas supply. Because of these concerns, I have contacted the Chairman of the Federal Trade Commission, Mr. Robert Pitofsky, to request an investigation of the dramatic increase in prices. This is my second such request for an investigation by the FTC. I originally contacted Mr. Pitofsky already in July 2000 and again early this year about this subject, but I was unsatisfied by what appeared to be a pro forma response.

I would also like to mention a component of the natural gas problem that has not received as much attention. Farmers are facing a shortage of nitrogen fertilizer along with expected and attendant price increases with spring planting fast approaching. This shortage is due to much higher natural gas prices, the major cost component of producing all basic fertilizer products. As a result of the rising natural gas costs, some fertilizer companies have reduced or halted production at their facilities. For those agricultural producers able to locate fertilizer supplies, the prices will be drastically higher than in previous years. With farmers already facing low prices for their crops, such an increase in fertilizer expenses is likely to cause even further problems in rural America. In addition to rising fertilizer costs, farmers also face the prospect of increased energy expenses related to agricultural activities such as irrigation and field work.

I would like to begin my comments on energy solutions by focusing on an issue which I believe has received inadequate attention. A strong national energy policy must include the promotion of renewable sources such as wind. The cost of producing energy from wind turbines has decreased substantially in recent years, but more should be done so that this form of clean power can reach its potential. Increasing the use of power from wind would not only reduce our nation's reliance on foreign sources of energy, it would also benefit our rural communities which are now confronting extremely difficult times. Wind turbines don't use much space, but farmers would still be able to derive much-needed income by leasing a small portion of their land to electric utilities.

This source of energy is especially important for the Great Plains region from the Dakotas to Texas, as well as other parts of the American West—Wyoming and parts of California. According to the American Wind Energy Association, Nebraska has the sixth greatest wind energy potential among all fifty states. Other research reports place it even higher—near the top. Chairman Barton may be interested to know that Texas ranks number two.

Quite simply, much more must be done to promote the use of wind energy, which I believe is vastly under-utilized in this nation but, at the same time, much more likely soon to be more cost-effective. One of the current incentives to promote wind energy is the use of investment and production tax credits. While I agree that this is a useful tool, I would emphasize here that *these credits unfortunately do not provide any benefit for publicly-owned electric utilities*. That is certainly an important deficiency—especially to Nebraska since we are currently the only state that is served exclusively by public power systems. There are several options which could provide public power with the incentive to pursue renewable sources such as wind. I understand that Congresswoman McCarthy, a member of this subcommittee, is also interested in exploring legislative options to provide incentives for public power entities to produce more renewable sources of energy and I would be pleased to work with her and other members of the Subcommittee on this important issue.

Also, there are at least several options which could be considered that would provide renewable energy incentives for public power. One possibility would be to establish a tradable investment and production tax credits program in the Internal Revenue Code for publicly owned electric utilities that produce electricity from eligible renewable energy projects. Participants in this program would receive credits for electricity generated from wind, solar, geothermal, hydro and biomass, including the conversion of landfill methane gas to energy.

Another legislative option would be to provide targeted tax-free bonds for use by public power utilities to pursue renewable and environmental projects. The subcommittee may also want to consider legislation to create a program of credits or incentives that provide benefits for public power utilities equivalent to existing and new renewable energy tax production and investment credits available to private electric utilities.

There is currently only one incentive program available for public power interested in promoting the use of renewable energy. The Renewable Energy Production Incentive program permits direct payments to publicly and cooperatively owned utilities for electricity generated by certain renewable means. Unfortunately, this program has not been adequately funded. In addition, not all eligible projects receive equitable funding. However, since it is the only program of its kind currently available, I support its reauthorization as well as its reform to provide greater funding and fairness.

Clearly, one of the keys to developing a sound national energy policy is to focus on efforts to reduce our dependence on foreign sources. I want to state emphatically that ethanol must be an integral part of any energy policy which Congress considers.

Increasing the use of ethanol creates a win-win-win situation for consumers, farmers and the environment. An analysis released last month by renowned economist John M. Urbanchuk, Executive Vice President of AUS Consultants, found that greater ethanol use also has positive implications for our nation's economy. The study found that quadrupling the use of ethanol over the next fifteen years would save American consumers \$57.5 million (1996 dollars). This is the equivalent of nearly \$540 for each household in the U.S. In the process, more than 156,000 new jobs would be created throughout the economy by 2015.

Greater use of ethanol is clearly needed to reduce our increasing reliance on foreign oil. Last year, the U.S. imported nearly 60 percent of its crude oil. The U.S. Department of Energy's Energy Information Agency now projects that figure to grow to nearly 70 percent by 2010. This is clearly unacceptable. Fortunately, part of the answer is growing in our own backyard in the form of corn, sorghum and other renewable feedstocks.

Another factor pushing the need for greater ethanol production is the realization that the use of MTBE must be phased-out quickly because of the threat this petroleum-based fuel additive poses to our nation's groundwater and drinking water supplies. I am cosponsoring legislation introduced by Representative Greg Ganske which would ban MTBE within three years and encourage refiners to replace it with ethanol. I understand that there are other legislative approaches which may be helpful in promoting the use of ethanol. Now is the time for action.

It's clear that ethanol producers are up to the challenge if given the appropriate opportunities and incentives. A study prepared for the Governors' Ethanol Coalition last year found that the ethanol industry has the capability of doubling in size by 2004 and tripling by 2010 without disruption in supply or increasing consumer costs. I am pleased that the current chairman of the Governors' Ethanol Coalition is Governor Mike Johanns of Nebraska. He has been an effective advocate on behalf of ethanol and its importance to our nation.

A related issue is the general promotion of plant biomass as an energy source. I believe it holds great potential for replacing natural gas as a source of electricity and steam and as well as the production of fuels such as ethanol. There is exciting work going on which is leading to more efficient collection and conversion of biomass into a sustainable matter. There are tremendous environmental and economic reasons to promote biomass energy resources. I encourage Congress and the Department of Energy to aid in these research efforts.

Again, Chairman Barton, Congressman Boucher, and Members of the Subcommittee, thank you for this opportunity to present my views. You have a daunting challenge ahead as you work to develop legislation to ease the nation's energy problems. However, it is obviously a necessary task and I look forward to working with you as we seek solutions.

Mr. BARTON. We appreciate it.

Now, the Chair has tried to figure out who is senior. We think it is Mr. Bartlett, senior, and then Congressman Calvert and Congressman Woolsey are coequally senior. If we are wrong about that, we apologize.

Mr. BARTLETT. We are all the same class.

Mr. BARTON. You are all the same class?

Ms. WOOLSEY. I just look younger than the rest of them.

Mr. BARTON. I was about to say that.

Given you are all in the same class, we are going to go with Mr. Bartlett, Mr. Calvert and Congresswoman Woolsey.

Mr. Bartlett, you are recognized for 5 minutes.

STATEMENT OF HON. ROSCOE G. BARTLETT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. BARTLETT. Thank you very much.

I would like to spend a few moments adding my voice to those who have urged the need for a national energy policy. I would like to call your attention to the world energy assessment by the United Nations. Although you may not agree with the conclusions they draw, I think we can use the data that they compile.

They have used a number of sources of estimates of the amount of recoverable oil which we know of. That amounts to about 1,000 billion barrels of oil. You can make assumptions as to what is out there that we haven't found, and you can make assumptions with a 95 percent level, a 50 percent level, and a 5 percent level of assurance. Even the most wildly optimistic levels do less than double that.

Now, if you take that 1,000 billion barrels of oil and say we are today using about 80 million a day, and that is roughly what we use—

Mr. BARTON. Eighty million. We don't use 80 billion a day.

Mr. BARTLETT. Eighty million. We, the world.

Mr. BARTON. Just a few zeros. It does count.

Mr. BARTLETT. We, the world, use about 80 million barrels a day in the world. A year is roughly 400 days long, and to keep the arithmetic simple, if you multiply 80 million times 400, you get 32 billion. The 32 billion divides roughly 30 times into 1,000 billion. So according to these data, we have about 30 years at present-use rates of known reserves of oil in the world.

I now would like to put a couple of graphs up here that come from this same document. These are very illustrative. About half of this is history, and the other half of it is a projection for the future.

What you can see here is that we started out in—

Mr. BARTON. Why don't you turn that, Congressman, so the cameras can see it.

Mr. BARTLETT. We started out in 1800 essentially using wood. We went to 1900, and in 1900 we were using essentially coal. There were some other things used, but that was the major source of our energy. Now in 2000, it is mostly oil. The question mark is what we will be using a century from now.

As you can see from these graphs, they make two different assumptions. One is that nuclear will play a meaningful role, and the other is, we won't use nuclear. That is the fundamental difference

between these two graphs. But as you see, in the year 2100 we are going to be getting more than three-fourths of our energy from nuclear, solar, others, which includes hydro and so forth, and biomass.

This speaks to an urgent need for research on renewables and alternatives. This is all that remains. There is not an infinite amount. God in his wisdom knew—I am sure he knew how profligate we would be in the use of fossil fuels, but he didn't put a limitless amount there and our only challenge is to go find it. There is a limited amount of fossil fuels in the world, so we desperately need a program which focuses on research on renewables and alternatives.

Several of those relate to agriculture, an industry in big trouble. Biomass, biodiesel, ethanol from corn and the exciting possibility of getting it from cellulose with a new bioengineered organism, these all will really help our farmers who are in trouble.

We need to exploit geothermal in those few places where we can in this country. Hydro, wind and solar, all of these provide opportunities to produce electricity at a local level to avoid the enormous line losses that we have when you move electricity. If you move liquid through a pipe, what comes out at the other end will be what you put in. When you put electricity into a line, if you move it long enough, nothing will come out the other end of the line; there are enormous losses. If we have a better distributive system, we can avoid many of those losses.

We need to focus on efficiency, we need to focus on conservation. I am not talking about shivering in the dark. There are things we can do in conservation which are really meaningful, which will not depreciate our lifestyle. We have 2 percent of the known reserves of oil in the world, 2 percent. We use 25 percent of the world's oil. We now import 56-or-so percent of all the oil we need.

I submit when we have only 2 percent of the known reserves of oil in the world and use 25 percent, it doesn't make any sense to immediately go out and find that 2 percent that we have and pump it. I know this is a rainy day, but I suspect in the future there will be an even rainier day, and this says nothing about the enormous petrochemical industry we have. As Charlie Stenholm mentioned, all of nitrogen fertilizer comes from gas today.

I really encourage the development of a long-term energy policy which focuses on getting energy from sources other than fossil fuels to the extent that we can.

Thank you.

Mr. BARTON. Thank you, Congressman Bartlett. We appreciate that input and that scientific evaluation. Very helpful.

Congressman Calvert, who I believe is a subcommittee chairman on the Resources Committee this year.

Mr. CALVERT. Yes.

Mr. BARTON. You are recognized for 5 minutes.

**STATEMENT OF HON. KEN CALVERT, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. CALVERT. Chairman Barton, Ranking Member Boucher, thank you for holding today's hearing. I would like to submit my full written statement for the record.

Mr. BARTON. Without jokes.

Mr. CALVERT. America's unprecedented economic growth and prosperity, of course, rests on affordable energy, and gasoline in my State of California is still about \$2 a gallon, and in some parts even higher, so our energy crisis continues to plague our State and certainly is well-publicized throughout this country. This Congress and this administration finally are working together and must develop a comprehensive energy plan that securely meets our growing demand, based upon a sound portfolio of energy sources.

For the foreseeable future, we will need to rely on our own domestic fuels that provide the bulk of the base-load electricity, and that is coming basically from fossil and nuclear fuels. Nuclear, which Mr. Bartlett mentioned just now, is quite frankly our most reliable and cleanest form of energy. Since nuclear energy does not burn fuel, it does not produce greenhouse gasses. Also, efficiency improvements in 1998 alone—this is interesting—adds the equivalent of six to seven nuclear plants to the Nation's electricity grid. To put this in a perspective, the 1 percent increase in nuclear efficiency called for in Senator Murkowski's energy bill would be 22 times the total generation of solar and twice the total wind generation in 1999—just a 1 percent increase in efficiency on nuclear.

We need to reconsider the numerous fossil fuel plants also in the short term that have been shut down in California. Such plants are immediate sources of sorely needed electricity and may be our quickest way to provide relief to our citizens in California in the short run. I understand the environmental problems, but we need those plants back on line as quickly as possible until alternatives are found.

America's unprecedented economic growth and prosperity rest also on an affordable supply of energy and water. As chairman of the Resources Subcommittee on Water and Power, I intend to hold hearings to examine contradictory Federal regulations that prevent hydroelectric production on Federal lands, not to mention gas and oil. I will also investigate Federal-State cooperation regarding water quality and quantity. Today the water crisis in California is real, and I predict may be more severe than the electricity crisis. That crisis will spread also to the rest of the country.

The challenge we face in formulating a comprehensive energy policy is how to balance costs and benefits in order to minimize the environmental effects and yet provide the energy we need to prosper by growing the economy, creating jobs and creating wealth.

I know that in California we have some significant problems, and it was talked about by various of the panelists. I would like to point out these problems are really systemic throughout the United States. There are 35 million people in California, and we produce a tremendous amount of electricity; but by far, we are the largest economic generator in the country, about 15 percent of the GNP comes from the State of California. The computer industry, the entertainment industry, agriculture, all No. 1 in the country in California, utilize a tremendous amount of electricity. So I hope we think about that.

As far as ethanol, I would also point out, which is very important, and I am somewhat supportive of ethanol production here in the United States; but the requirement to utilize ethanol as a re-

placement for MTBE in California scientifically is not necessary. We should, even though we may use it and utilize it, it should not be required within California to use that as oxygenate when it is technically not necessary in order for us to meet our clean air objectives without it. Because it gives us flexibility potentially to find other alternatives to ethanol, at the same time, I think there would not be enough ethanol to replace MTBE in California, which is an equivalent of adding about 10 percent of California's fuel supply.

With that, I want to thank the chairman and the ranking member, and I look forward to working with all of you on these issues. And certainly renewables are important and all of the alternative energies are important, but also we need to look at nuclear as an alternative to really meet the energy demands of the future.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Ken Calvert follows:]

PREPARED STATEMENT OF HON. KEN CALVERT, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF CALIFORNIA

Mr. Chairman, thank you for holding today's hearing on "Congressional Perspectives on Electricity Markets in California and the West and National Energy Policy".

America's unprecedented economic growth and prosperity rests on an affordable supply of energy. While gasoline prices continue to hover around 2 dollars per gallon in some parts of California the energy crisis continues to plague my state. The time has arrived for *this* Congress and *this* Administration—working together—to develop a comprehensive energy plan that securely meets growing demand based on a sound portfolio of energy resources.

We can all agree that reducing emissions is a good idea—and there are several ways to do it; through energy efficiency and with renewable and nuclear energy. I continue to advocate the pursuit of greater efficiencies and reduced energy consumption in our industrial processes, in our transportation sector and in our communities and homes. The University of California, Riverside, CE-CERT has a number of innovative programs to reduce energy demand and improve the environment. For example, they have a hydrogen-vehicle fleet demonstration at the campus. These advances not only save energy, but also prevent greater dependence on oil imports while improving the environment.

Deploying renewable energy is part of the "cleaner, greener" future. Renewable energy should be integrated where the economics make sense. For example, in my district, both the county and the city of Riverside collect methane gas from a municipal landfill and the sewage treatment plant to produce nearly 5 megawatts of electricity—enough to power facilities at the landfill and the treatment plant with some left to sell to the grid.

However, renewable energy sources and energy efficiency measures are not going to be enough to meet growing energy demand in our nation—necessary for economic growth and wealth creation. The DOE's own Energy Information Administration predicts that even if we triple renewable energy supplies over the next twenty years, renewable energy will only maintain its current share of supply. For the foreseeable future, we will need to rely on domestic resources that provide the bulk of base-load electricity—fossil and nuclear energy.

Today, nuclear energy is our most reliable and cleanest form of domestic energy. Since nuclear energy does not burn fuel, it does not produce greenhouse gases or other emissions, such as sulfur dioxide, that pollute our air. I mentioned earlier the importance of achieving greater efficiencies in energy production. An outstanding example of this is our nation's nuclear plants. Though no nuclear power plants have been built in the U.S. over the last 20 years, efficiency improvements in 1998 alone added the equivalent of six to seven nuclear plants to the nation's electricity grid. To put this in perspective, the 1 percent increase in nuclear generation efficiency called for in Senator Murkowski's energy bill would be 22 times the total generation by solar and twice the total wind energy generation in 1999.

We also need to reconsider the numerous fossil fueled plants that have been shut down in California because they did not meet emission standards. These plants represent immediate sources of sorely needed electricity and may—in the short term—be our quickest supply. And in North America as a whole, where an enormous amount of natural gas resides, fossil fuel exploration on millions of acres, mostly in

the western states, has all but halted. In fact, several million acres in California and the Rockies were taken out of production on the last day of the Clinton Administration. Fortunately, President Bush has delayed the implementation of these last minute designations until May 12th in order to allow his Administration time for review.

As a senior member of the House Resources Committee, I plan to examine contradictory federal regulations which prevent environmentally-friendly fossil fuel exploration and production on federal lands.

As I began today, I stated that America's unprecedented economic growth and prosperity rests on an affordable supply of energy. But, in the West, it also rests on WATER. The House Resources' Subcommittee on Water and Power, which I chair, recognizes the interconnection of these two valuable resources. As Chairman, I intend to hold hearings on the role of not only federally-produced energy in the West, but also on the importance of federal-state cooperation when it comes to water—both quantity and quality. Today the water crisis in California is real, though not widely known, and it will likely be a crisis for much of the nation in the not so distant future.

Every energy source has risks, costs and benefits yielding a unique set of problems and opportunities. The challenge we face in formulating a comprehensive energy policy is how to balance the costs and benefits in order to minimize environmental effects and yet provide the energy we need to prosper by growing the economy, creating jobs and creating wealth.

Thank you Chairman Barton and Ranking Member Boucher. I look forward to working with you on all these issues as this Congress forges a National Energy Strategy.

Mr. BARTON. I want to thank you, and your leadership is going to be very important in this issue.

The Chair would now recognize the gentlelady, Congresswoman Woolsey. The Chair wants you to know that I knew what your name was. My staff didn't know, but I knew. So I apologize for its being misspelled.

Ms. WOOLSEY. You are not the only one that misspells it like that.

Mr. BARTON. It wasn't me.

Your statement is in the record. You are recognized for 5 minutes to elaborate.

**STATEMENT OF HON. LYNN C. WOOLSEY, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF CALIFORNIA**

Ms. WOOLSEY. Thank you, Mr. Chairman. Thank you for the opportunity to testify today.

As a Californian, I am echoing my colleagues who testified earlier about our State's energy crisis. It is a very serious problem. But I am here today wearing a new hat for me as the Science Committee's ranking member on the Energy Subcommittee where Roscoe Bartlett is the Chair. I look forward to working with him on energy in the future.

But I want to emphasize the need for a national energy policy to include renewable energy sources, energy efficiency, and conservation.

Since passing the National Energy Policy Act in 1992, Congress has generally ignored energy issues. But the power problems in California, as well as the increased price of natural gas and oil throughout the United States, have brought energy back to the top of our Nation's agenda.

The energy shortage we are experiencing in California is proof enough, however, that Congress must raise the stakes in search of alternative energy sources. Obviously, what we are doing is not

good enough. We can no longer ignore wind, we can no longer ignore solar, fuel cell and geothermal energy sources.

At last week's Science Committee hearing on the role of renewable energy sources and energy efficiency, our witnesses, each one of them an economic and policy analyst, spoke about the increased role renewables and energy efficiency must play in meeting our Nation's long-term growing energy demand.

As Congress forges a long-term energy policy, it is absolutely imperative that we make a true commitment to alternative energy sources, to efficiency and to conservation. Otherwise, we will not prevent future energy crises.

Measures of this kind can and do work. For example, in my district, which is just north of the Golden Gate Bridge, north of San Francisco, several Marin County communities, including Mill Valley, San Raphael and Novato, are currently installing new energy-efficient traffic lights that only use 10 to 20 percent of electricity that current lights do.

In Sonoma County, the city of Santa Rosa is working on a project to send 11 million gallons of reclaimed waste water to The Geysers' geothermal plant each day. When this project is completed, The Geysers' steam fields will continuously displace 85 megawatts of fossil energy. That is just by using reclaimed waste water.

The Sonoma County Transit Department is building a landfill gas conversion facility that allows excess landfill gas to be used as an alternative fuel for their buses.

Encouraging measures like these all across our country will make a huge difference in meeting our energy demands in the future.

Like my constituents and like many of my colleagues, I strongly believe there is an important role for the Federal Government to encourage clean, efficient and renewable technologies as part of our national energy portfolio.

As this Congress embarks on developing a national energy policy, this committee, your committee, Mr. Chairman, along with the Science Committee and the Ways and Means Committee, can broaden our horizons by getting out of the box, by encouraging policies for the future.

I look forward to working with this subcommittee to develop and move a comprehensive legislative agenda that prominently features renewable energy sources and energy efficiency and conservation measures as an integral part of our national energy policy.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Lynn Woolsey follows:]

PREPARED STATEMENT OF HON. LYNN WOOLSEY, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF CALIFORNIA

Mr. Chairman, thank you for the opportunity to testify today. As a Californian, I'm echoing my colleagues who testified earlier about our state's energy crisis... it's a serious problem.

I'm pleased to be here wearing a new hat as the Science Committee's Ranking Member on the Energy Subcommittee. Specifically, I want to emphasize the need for a national energy policy to include renewable energy sources, energy efficiency and conservation.

Since passing the National Energy Policy Act in 1992, Congress has generally ignored energy issues. But the power problems in California, as well as the increased price of natural gas and oil throughout the country, have brought energy back to

the top of our nation's agenda. The energy shortage we're experiencing in California is proof enough that Congress must raise the stakes in search of alternative energy sources. Obviously, what we're doing isn't good enough. We can no longer ignore wind, solar, fuel cell and geothermal energy sources.

At last week's Science Committee hearing on the role of renewable energy sources and energy efficiency, our witnesses—all economic and policy analysts—spoke about the increased role renewables and energy efficiency must play in meeting our nation's long-term, growing energy demand. As Congress forges a long-term energy policy, it's imperative we make a *true commitment* to alternative energy sources, efficiency and conservation to prevent future energy crisis.

Measures of this kind can work. For example, in my district, several Marin County communities—including Mill Valley, San Rafael and Novato—are currently installing new energy-efficient traffic lights that use only 10-20 percent of the electricity used by current bulbs. In Sonoma County, the City of Santa Rosa is working on a project to send 11 million gallons of its reclaimed wastewater to the Geysers geothermal plant each day. When completed, the Geysers steam fields will continuously displace 85 megawatts of fossil energy. The Sonoma County Transit Department is also building a landfill gas conversion facility that allows excess landfill gas to be used as an alternative fuel for their buses. Encouraging measures like these all across our country will make a difference in meeting our energy demands.

Like my constituents and many of my colleagues, I strongly believe there's an important role for the federal government to encourage clean, efficient and renewable technologies as part of our national energy portfolio. As this Congress embarks on developing a national energy policy this Committee with the Science Committee and the Ways & Means Committee, can broaden our horizons by getting "out of the box" and encouraging policies for the future. I would look forward to working with this Subcommittee to develop and move a comprehensive legislative agenda that prominently features renewable energy sources, energy efficiency and conservation measures as part of a national energy policy.

Thank you.

Mr. BARTON. Thank you, Congresswoman.

We now want to hear from one of our newer members, Congresswoman Capito from the great State of West Virginia.

Your statement is in the record. You are recognized for 5 minutes.

STATEMENT OF HON. SHELLEY MOORE CAPITO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WEST VIRGINIA

Ms. CAPITO. Thank you, Mr. Chairman.

Mr. BARTON. Make sure that microphone is on.

Ms. CAPITO. I am new, remember.

Thank you, Mr. Chairman, Ranking Member Boucher and members of the subcommittee. I appreciate your holding this day of hearings, and I am grateful for the invitation to speak.

Mr. Chairman, the signs of an impending energy crisis are no longer just on the horizon. In 1999, an OPEC-imposed reduction in oil supply forced United States consumers across the country to pay record prices at the pump. In the year 2000, restricted supplies, combined with the poor distribution system, resulted in staggering price increases for home heating oil in the Northeast. During the summer of 2000 and continuing into the fall, California's electricity emergency is forcing many utilities into potential bankruptcy.

Regrettably, we do not have a workable energy policy in place to help us address our current energy crisis and, perhaps more importantly, to help us prevent future problems. However, I do believe that help is on the way.

As you know, President Bush has asked Vice President Cheney to lead the development of a national energy policy designed to

help the Federal, State and local governments, as well as the private sector, promote dependable, affordable and environmentally sound production and distribution of energy for our future.

Mr. Chairman, as you and the members of the subcommittee work with the President's task force, I would strongly encourage you to consider our 275-billion-ton reserve of recoverable coal. To put this number into perspective, the reserve is one-quarter of the world's coal. It is equal to more than half of the combined energy of the world's proven reserves of oil and gas. It is 36 times as large as America's domestic reserve of natural gas and 46 times the domestic reserve of oil.

As you know, estimates of energy reserves are counted in British thermal units, also known as BTUs. For further context, approximately 1 BTU of every 6 BTUs available to do the work of the world is in the U.S. coal reserve. If all of America's coal were converted to electric power at the current efficiencies of generating plants, it would develop 495 trillion kilowatt hours of the energy, which is the lifeblood of our modern economy.

In 1999, the U.S. generated 1.9 trillion kilowatt hours with coal, which equates to approximately 51 percent of all power. In terms of domestic energy, coal represents 40 percent of all fossil fuel energy production, and 90 to 95 percent of all fossil fuel reserves.

My State of West Virginia is one of America's leading coal States and the estimate of our recoverable coal is 20 billion tons. Further estimates reveal that West Virginia coal alone is the rough equivalent of more than twice the energy in America's recoverable gas reserves and three times the proven oil reserves.

Coal is America's low-cost fossil fuel and is a secure energy source that can and does provide economic and energy security to all Americans, especially West Virginians. Advanced technologies for generating electrical power through coal are more efficient than the current processes. Higher efficiencies mean that more power can be generated with less coal.

The 495 trillion kilowatt hour potential of the reserve will expand as new technologies are put into place. Advanced pulverized coal generation and the generation technologies in the U.S. coal demonstration program all perform significantly better than required by the most stringent clean air standards.

Therefore, with the advancement of clean coal technology and a working partnership with all parties involved, I am certain we will be able to create a national energy policy that will benefit every American.

It is essential that we include coal in any policy that will determine the way we proceed down this path. I am here today to show my support to the working men and women in the Nation's coal industry.

Again, thank you, Mr. Chairman. I look forward to working with you and the subcommittee members on this issue. As we all know, energy will continue to drive our lives and coal is an essential part of that driving force. Thank you for giving me this opportunity.

[The prepared statement of Hon. Shelley Moore Capito follows:]

PREPARED STATEMENT OF HON. SHELLEY MOORE CAPITO, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF WEST VIRGINIA

Thank you Mr. Chairman, Ranking Member Boucher, and members of the Subcommittee. I appreciate your holding this day of hearings, and am grateful for the invitation to speak.

Mr. Chairman, the signs of an impending energy crisis are no longer just on the horizon. In 1999, an OPEC imposed reduction in oil supply forced U.S. consumers across the country to pay record prices at the pump. In 2000, restricted supplies combined with a poor distribution system resulted in staggering price increases for home heating oil in the Northeast. And during the summer of 2000 and continuing into the fall, California's electricity emergency is forcing many utilities into potential bankruptcy.

Regrettably, we do not have a workable energy policy in place to help us address our current energy crisis's and, perhaps more importantly, to help us prevent future problems. However, I do believe that help is on the way. As you know, President Bush has asked Vice-President Cheney to lead the development of a national energy policy designed to help the federal, state and local governments as well as the private sector promote dependable, affordable, and environmentally sound production and distribution of energy for the future.

Mr. Chairman as you and the members of this subcommittee work with the President's task force, I would strongly encourage you to consider our 275-billion ton reserve of *recoverable* coal.

To put this number into perspective, the reserve is one quarter of the world's coal, it is equal to more than half of the combined energy of the world's proven reserves of oil and gas, it is 36 times as large as America's domestic reserve of natural gas and 46 times the domestic reserve of oil.

As you know, estimates of energy reserves are counted up in British thermal units, also known as Btus. For further context, approximately one Btu of every six Btus available to do the work of the world is in the US coal reserve.

If all of America's coal were converted to electric power at the current efficiencies of generating plants, it would deliver 495-trillion kilowatt-hours of the energy, which is the life-blood of our modern economy.

In 1999, the US generated 1.9 trillion kilowatt-hours with coal, which equates to 51% of all power. In terms of domestic energy, coal represents 40% of all fossil fuel energy production and 90 to 95 % of all fossil fuel reserves.

My state of West Virginia is one of America's leading coal states and the estimate of our recoverable coal is 20 billion tons. Further estimates reveal that West Virginia coal alone is the rough equivalent of more than twice the energy in America's recoverable gas reserves and three times the proven oil reserves.

Coal is America's low-cost fossil fuel and is a secure energy resource that can and does provide economic and energy security to all Americans.

Advanced technologies for generating electric power through coal are more efficient than the current processes. Higher efficiencies mean that more power can be generated with less coal. The 495-trillion kilowatt-hour potential of the reserve will expand as the new technologies are put in place.

Advanced pulverized-coal generation and the generating technologies in the US Clean Coal demonstration program all perform significantly better than the most stringent clean air standards—the New Performance Standards of the United States.

Therefore, with the advancement of clean-coal technology and a working partnership with all parties involved, I am certain that we will be able to create a National Energy Policy that will benefit every American.

It is essential that we include coal into any policy that will determine the way we proceed down this very tricky path. I am here today to show my support to the working men and women in the nation's coal industry.

Again, thank you Mr. Chairman, I look forward to working with you and the Subcommittee members on this issue. As we all know, energy will continue to drive our lives, and coal is an essential part of that driving force.

Thank you. I will be happy to take any questions.

Mr. BARTON. Thank you, Congresswoman.

It looks as though Congressman Markey has brought help with him. Is this the help we keep talking about that is on the way? You brought some of your constituents from the great State of Massachusetts?

Mr. MARKEY. These represent the superior seniors from my alma mater, Malden Catholic High School.

Mr. BARTON. Welcome to the subcommittee. You have got a distinguished alumnus in Congressman Markey. He will be on his best behavior because you are here. We appreciate your being here.

We now want to go to Congressman Aderholt. Your statement is in the record. You are recognized for 5 minutes to elaborate on it.

Congressman Inslee, if you want to take Congresswoman Woolsey's place, you will be our cleanup hitter.

STATEMENT OF HON. ROBERT B. ADERHOLT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Mr. ADERHOLT. Thank you for allowing me to testify today on behalf of my constituents, and particularly thank you for allowing me to speak on behalf of my constituents in Alabama. Many of the constituents I represent have been particularly hit hard by high natural gas prices this winter.

Mr. BARTON. With the disappearance of this panel, if you want to come around to the main part of the table—we let one of them go, and they all just bailed out on us.

Mr. ADERHOLT. This testimony, I hope will help to illustrate some of the impact that high natural gas prices have had recently on consumers in Alabama and throughout the Nation, and outline some possible solutions. I have been concerned about the dramatic increase in the price of natural gas that has burdened Alabama consumers over the past few months.

In my own hometown of Haleyville, my most recent winter gas bill was over \$400 for 1 month. That was well over twice the amount for the same period last year.

A \$200 or more monthly increase is particularly a major burden for those across our Nation who live on fixed incomes. This increase in prices has hit them especially hard. This price increase causes the amount of income available for other necessities such as food, medicine and other utilities to be greatly reduced. Without these life necessities, these people and their families are at risk of co-related illnesses, hunger, homelessness, just to name a few of the potential problems.

This situation also affects businesses and their bottom line. When their costs are passed along to consumers, this, in turn, increases prices for everyone.

As an example of these dramatic price increases, one poultry grower informed me that in November and December 1999, propane costs represented 17 percent of his gross receipts. During the same period in 2000, this same grower used 61 percent of his gross receipts for propane needs. While it is true this has been an unusually cold winter, the costs appear to have been due not only to increased consumer demand; there has in fact been a shortage which has made prices higher.

Evidence of this shortage in the propane market is evidenced by the fact that from January 1999 to January of 2000, U.S. propane exports to Mexico increased from 50,000 barrels per day to 85,000 barrels per day. It seems very likely that these increased propane exports have driven up propane prices at the same time that increased demand for propane is occurring.

As has been brought to my attention, the U.S. Department of Energy has estimated that residential customers will pay 40 to 50 percent more for their gas service this winter. This situation is made worse by the fact that the cost of delivering propane to consumers in rural areas is higher than in urban areas.

In Alabama, I have discussed with the State public service commission the importance of natural gas suppliers and propane dealers not cutting off any resident or business who needs extra time to pay their bills. I am especially concerned about seniors who are on fixed incomes, that they do not get cutoff.

Second, I want to applaud the efforts of our colleague from Mississippi, Congressman Chip Pickering, who serves on this subcommittee, for his bill, H.R. 396, which would allow the Secretary of Agriculture to provide assistance to poultry and livestock producers and greenhouse operators who have incurred economic losses due to the increased energy prices in 2000 and 2001. While Representative Pickering's bill is under the jurisdiction of the Agriculture Committee, I certainly urge all of my House colleagues to join as cosponsors of this important legislation.

I believe that there are several very important questions to be answered, all of which will fall under the jurisdiction of this subcommittee. With the increasing reliance on natural gas by electric utilities for power generation, I urge this subcommittee to examine whether or not recent price spikes for electricity in California may have impacted the market price of natural gas supplies nationwide. Also, I urge this subcommittee to investigate the possibility of price gouging by refiners and also the impact on prices of our exports of propane to Mexico in recent years.

As you know, Mr. Chairman, I have written to you and the other members of the committee in more detail regarding these questions, and I respectfully ask you to insist that the Department of Energy and others involved in this process answer these questions.

Finally, in addition to these short-term solutions, I believe that there is also a long-term problem that reveals the need for a sound energy policy. Of course, it goes without saying that this subcommittee is urged to work with the administration to make sure that we put a comprehensive national energy policy together so we can avoid problems like this in the future.

Thank you for allowing me to come share these thoughts with the subcommittee today. I look forward to working with you.

Mr. BARTON. Thank you, Congressman. When you came into the room earlier, I should have asked you to come to the dais at that time. I apologize.

Mr. ADERHOLT. That is fine. Thank you.

[The prepared statement of Hon. Robert B. Aderholt follows:]

PREPARED STATEMENT OF HON. ROBERT B. ADERHOLT, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF ALABAMA

I want to thank Chairman Barton and the Members of the Subcommittee for allowing me to testify today on behalf of constituents in the North Alabama district that I represent. Many of these constituents have been particularly hard hit by high natural gas prices this winter. This testimony will help to illustrate some of the impact that high natural gas prices have recently had on consumers in North Alabama and throughout the Nation, and outline some possible solutions.

I have been concerned about the dramatic increase in the price of natural gas that has burdened Alabama consumers over the past few months. In my own hometown

of Haleyville, my most recent winter gas bill was well over \$400 for one month, over twice the amount over the same period last year.

A \$200 dollar monthly increase is particularly a major burden for those across our nation who live on a fixed income—this increase in prices has hit them especially hard. These price increases cause the amount of income available for other necessities such as food, medication, and other utilities to be greatly reduced. Without these life necessities, these people and their families are at risk of cold-related illnesses, hunger, or homelessness, to name just a few potential problems. This situation also affects businesses, and their bottom line. When their costs are passed along to consumers, this in turn increases prices for everybody.

As an example of these dramatic price increases, one poultry grower informed me that in November and December of 1999, propane costs represented 17 percent of his gross receipts. During the same period in 2000, the same grower used 61 percent of his gross receipts for propane needs.

While it is true this has been an unusually cold winter, the costs appear to have not been only due to increased consumer demand. There has in fact been a shortage which has made prices higher. Evidence of this shortage in the propane market is evidenced by the fact that from January 1999 to January 2000, U.S. propane exports to Mexico increased from 50,000 barrels per day to 85,000 barrels per day. It seems very likely that these increased propane exports have driven up propane prices at the same time that increased demand for propane is occurring.

It has been brought to my attention that the U.S. Department of Energy (DOE) has estimated that residential customers will pay 40 to 50 percent more for their gas service this winter. The situation is made worse by the fact that the cost of *delivering* propane (often referred to as the fuel of rural America) to consumers in rural areas is higher than in urban areas.

In Alabama, I have discussed with the State Public Service Commission the importance of natural gas suppliers and propane dealers not cutting off any residents or businesses who need extra time to pay their bills. I am especially concerned that seniors on fixed incomes do not get cut off.

Secondly, I want to applaud the efforts of our colleague from Mississippi, Rep. Chip Pickering, who serves on this Subcommittee, for his bill, H.R. 396, which would allow the Secretary of Agriculture to provide assistance to poultry and livestock producers and greenhouse operators who have incurred economic losses due to increased energy prices in 2000 or 2001. While Rep. Pickering's bill is under the jurisdiction of the Agriculture Committee, I urge all of my House colleagues to join me as cosponsors of this important legislation.

I believe there are several very important questions to be answered, all of which fall under the jurisdiction of this Subcommittee. With increasing reliance on natural gas by electric utilities for power generation, I urge this Subcommittee to examine whether or not recent price spikes for electricity in California may have impacted the market price of natural gas supplies nationwide. Additionally, I urge the Subcommittee to investigate the possibility of price gouging by refiners, and also the impact on prices of our exports of propane to Mexico in recent years. As you know Mr. Chairman, I have written to you in more detail regarding these questions, and I respectfully request you insist on that DOE and others involved in this process answer these questions.

Finally, in addition to these short term solutions, I believe that this is also a long-term problem and reveals the need for a sound energy policy. I urge Members of this Subcommittee to work with President Bush and his Administration to make sure that we put together a comprehensive national energy policy, so we can avoid problems like this in the future. Thank you for this opportunity to offer my concerns. I look forward to continuing to work with you to address the impact of high natural gas prices on rural America.

Mr. BARTON. I think we have seen this witness before once today. I don't think we have ever had a witness testify on two separate panels in the same day, so this is an historic event.

Congressman, your statement is in the record in its entirety, and you are recognized for 5 minutes to testify on it.

Mr. INSLEE. Thank you, Mr. Chairman. My mother will note that I have created history here. It will surprise my father and please my mother.

The reason I came back is I was really talking about short-term issues before, and I would like to make three points on a long-term energy policy for the country. I am cleanup hitter, so I think it is

incumbent on me to deliver some good news. I have two pieces of good news.

Before I get to that, I want to tell you the bad news. I just urge the committee to acquaint itself with one chart when you draft our energy future, if I can just share this chart with you. It is basically showing the carbon dioxide concentrations in the atmosphere beginning with the dawn of the Industrial Age to the present, and then you can see where that line is going in the future.

I really believe, in drafting a national energy policy, this chart has got to play a major role in our decisionmaking. The reason is that this chart is unambiguous, certain and indisputable. All scientific folks agree with this chart, that CO₂ levels in the atmosphere are going up dramatically, and probably unless this committee and this Congress and we act internationally, it is going to double in the next century.

The result of that is a profound increase in the global tendency to trap energy in the atmosphere because of the presence of what are called global climate change gasses, and CO₂ is the predominant one. Energy comes in, like a greenhouse, in ultraviolet rays, but infrared light—excuse me, I have them reversed—does not go out through the CO₂. It is a blanket and it is doubling and it is getting thicker and it is indisputable.

I just think whatever we do and whatever discussions we have in this committee, I just hope you will discuss this phenomenon about what we are going to do about it, because it means, indisputably, we are going to have some changes in our climate. As you know, an international panel of scientists about a month ago came back with very disturbing news that this process is accelerating faster than most people anticipated even 2 or 3 years ago. So I just urge the committee to think about this in our deliberations.

That is the bad news.

The good news is there are some great things happening on the horizon. Solar power prices have come down 50 percent since 1995. Wind power prices have come down 45 percent in the last decade. Interestingly enough, wind power for every doubling of amount of wind in the field, the price comes down 15 percent. There is very positive technology coming on-line if we can spur it through Federal action to help us out.

The third piece of good news, I hope, Mr. Chairman, you can help me pass the Home Energy Generation Act, a little act that will have a national net metering policy that I have introduced with many others, which would simply require the utilities to accept home generation of electricity to feed back onto the grid so your meter will run backwards essentially while you are contributing energy to the grid. It is one small thing we can do to boost renewable energy sources at the home level.

Thank you very much for this historic opportunity, Mr. Chairman.

Mr. BARTON. You gave us back almost 2 minutes, Congressman.

The Chair has no questions. The Chair would recognize Mr. Boucher.

Mr. BOUCHER. No questions.

Mr. BARTON. Mr. Largent?

Mr. LARGENT. No questions.

Mr. BARTON. Mr. Barrett?

Mr. BARRETT. No questions.

Mr. BARTON. Mr. Shadegg? Welcome back to the subcommittee. We appreciate your being here.

Mr. SHADEGG. Thank you, Mr. Chairman. I will be brief. I want to begin, I could not be here earlier, but I want to commend you for holding this hearing. As you know, I went to Pasadena, California, with you some 2 weeks ago to look at the California energy crisis. I think it is indeed an energy crisis, but it is an energy crisis which is largely of our own creation.

I listened to my friend, Mr. Calvert—I notice virtually all of the witnesses except Mr. Inslee have decided to depart, so there is almost no one to question, but we will make comments about some of the testimony nonetheless.

Mr. Calvert noted that many of the California problems are systemic throughout the country, but I think that is not completely correct. In part, when you look at the California energy crisis that we examined, Mr. Chairman, when we were there, it is clear that some of the contributing factors to that crisis are man-made and were conscientious efforts to ignore, quite frankly, reality.

The failure of California to build additional production is quite obvious. As a matter of fact, for example, in the last decade, the amount of electricity generated in California actually decreased from 208,350 gigawatts in 1990 to 205,246 gigawatts in 1998. That shows that that State over a 10-year period actually lost production capacity. That should not come as any surprise in light of the fact that at least since the imposition of their retail price caps, we had an artificial market where we had retail price caps, but no wholesale price caps. That kind of policy sends exactly the wrong message.

I commend you, Mr. Chairman, for the meetings we conducted in California, in Pasadena, for what I was able to learn there, and for the hearing today. I have to say I felt the testimony there was much more informed than some of the testimony we heard here today.

Mr. Ganske, I was going to comment upon the fact that he is right about the “not in my backyard” syndrome, and I wanted to bring a couple of facts to the attention of the subcommittee with regard to that syndrome, the “not in my backyard” syndrome, impending directly on the California energy crisis. These are the facts I wanted to bring forward.

The Los Angeles Times poll taken in Southern California in the L.A. Area and released on February 18 showed that—this is February 18, less than a month ago, a full 57 percent of Californians do not believe that there is a shortage of electricity. They are, pretty clearly, Mr. Chairman, living in La-la Land.

Now, perhaps we can't blame them, because we imposed artificial price caps holding down the retail price as a seriously low level. Indeed, electricity prices in most of the Western United States have gone up by 20 percent over the last few years. In California, they have gone up by zero percent. So perhaps we should not be surprised that 57 percent of Californians in this poll don't believe there is a shortage of electricity. But I think we have a crisis of knowledge when we have that kind of ignorance.

I would like to illustrate that that then has public policy implications.

Mr. BARTON. Is there a question in here somewhere?

Mr. SHADEGG. There is no question, Mr. Chairman. I need to just get a few things in the record.

I commend Mr. Inslee for coming forward. I would be happy to ask Mr. Inslee from his earlier testimony, he advocated price caps and we might talk about that in just a moment.

But the consequence of the ignorance of this electricity shortage can be shown in one more symptom, and that is the L.A. Times in an editorial yesterday—the day before yesterday, on Sunday, excuse me—said a sense of public urgency is lacking. That might be a monumental understatement, Mr. Chairman.

They go on to say, one indicator is a municipal vote on Tuesday—that is, today—on whether a new power plant should be built in Southgate. Polls show currently that that vote is currently at about a 50-50 level. It may or may not pass. This is in a State which is literally thousands of megawatts short of electricity at peak times of being able to meet their demand. Fifty-seven percent don't believe there is a crisis, and only roughly half may vote to build this new power plant in Southgate.

There are a number of issues I think we need to address. I wanted to commend Mr. Calvert for his commentary on ethanol. While I think ethanol is a technology we need to pursue, we should have learned from our policy last time around.

Last time around we mandated oxygenates and essentially mandated MTBE. We now know it is causing a serious problem to our water table. I hope this committee and this Congress does not make the same mistake by mandating ethanol. As Mr. Calvert pointed out in his testimony, you can in fact creatively produce very clean gasoline and improve air quality without mandating a particular solution. I would urge this committee not to do that.

I will conclude by asking indeed one question of Mr. Inslee.

Mr. BARTON. In your last 4 seconds.

Mr. SHADEGG. To please you, Mr. Chairman, my concern is, and two questions:

One, when—

Mr. BARTON. One question.

Mr. SHADEGG. One question. Two questions in one.

When has any temporary rate cap imposed by the Federal Government in fact ever been allowed to expire; and what is it about a rate cap that you think would cause either the encouragement of additional production in the Western United States to meet the demand that we have, or the encouragement of reduced consumption and greater conservation by the people in the State of California?

Mr. INSLEE. Well, the first question, there have been many times where various public entities in this country have imposed some control over prices—many, many times, going back to President Nixon's time. Some were successful, some were not. But there have been many times where price caps have been imposed and then removed. I think this should be one of these. I want to reiterate, it can and should be short-term. We can fashion a way to do that.

The second part, as far as the creation of new generation, again I would suggest that we exempt new generation capacity, thereby

sending price signals to new generators who make investments to indeed have higher prices for new generating capacity-produced electricity.

But I will tell you, it is going to be a disincentive for creation of that new electricity if the economy goes to heck in a handbasket, and I am really afraid that is what is going to happen if we don't act.

Mr. BARTON. Thank you, Congressman.

For the last word, Congressman Markey for 5 minutes.

Mr. MARKEY. Thank you, Mr. Chairman, very much.

Mr. Inslee, it is reported there is going to be a 4 percent cut in the Department of Energy's budget. Since it is quite clear the areas that they are going to protect, it is projected there will be a 30 to 35 percent cut in energy efficiency grants and a 40 to 45 percent cut in renewables on research and development and a 20 percent cut in fossil fuels R&D.

Do you think that would be a good idea?

Mr. INSLEE. I am a specialist in rhetorical questions, so I can handle this one.

Mr. MARKEY. Thank you. I am always glad when someone can recognize a rhetorical question.

Mr. INSLEE. You know, I really am disturbed and disappointed by that. I will tell you why, Congressman.

Last week I actually heard some—what I thought, very encouraging signs from the administration. Some of the comments from our new EPA Administrator, Governor Whitman, I thought were very encouraging where she recognized the necessity of dealing with global climate change issues, where she recognized the necessity of working on new technologies. That was very, very encouraging to me as a voice from the administration.

But this proposed actual slashing of budgets for renewable energy to me incredibly manifests ignoring clear science. Where we have got a chart like this we are looking at, which is going to demand that we reduce our amount of carbon dioxide loading of the atmosphere, we are not going to have a choice. Whether you are a Democrat or Republican, 10 years from now you are not going to have a choice, but to reduce our carbon dioxide loading the environment. It is very disturbing.

As you know, just maybe to answer the next question—

Mr. MARKEY. No, let me ask the next question. There is a certain "Carnack" quality to your answering my next question, I realize that, but just so that we do square up before you answer it, it would be on the remarkable fact that there was actually a 60 percent increase in natural gas production on Federal lands from 1992 when Bill Clinton took over until today, and in fact there was a 62 percent increase in offshore drilling from 1992 to 1999, and natural gas production in deep waters increased 80 percent over just the last 2 years.

Is it surprising to you to learn that, notwithstanding all the criticism of the environmental movement in the Clinton administration, there has been such a dramatic increase in the production of energy on public lands in just the last 8 years?

Mr. INSLEE. I must actually admit to my ignorance. I have not heard those numbers. I have learned something today, and it proves it pays to come to this committee.

Mr. MARKEY. Thank you. Let me see if I can continue to broaden your education.

Mr. BARTON. Your constituents may be so young they may not know who Carnack was.

Mr. MARKEY. How many of you know who Carnack was?

Mr. BARTON. That is what I thought.

Mr. MARKEY. Wow. Let me ask you, where is Jay Leno from? Andover. See, they know that. He is from the Andover High School. So they know what happened when they got rid of this guy from Nebraska, we got a good guy from Andover in there.

You know, another very interesting fact that people are unaware of is Jeb Bush's opposition to drilling 100 miles out at sea off of the Florida coast, even though there is a consensus we should drill, and there is loads of energy out there. What do you think about Jeb Bush opposing drilling in areas where there is a consensus reached by Democrats and Republicans that we should go out there?

Mr. INSLEE. I think it is most enlightened and very encouraging, and we hope there is a familial line of communication which will extend that far to the Northwest part of our States up to the Arctic refuge. We hope that that policy will be forthcoming. I have to tell you—

Mr. MARKEY. Do you consider him an environmentalist? Is he an extremist for taking that position?

Environmentalists actually support drilling in this water. In other words, this is not being opposed by environmentalists, but actually supported. Do you consider him to be an environmental extremist for taking that position?

Mr. INSLEE. Hardly, and I think it is consistent with what Americans think. I got to tell you, since last week's discussion of the Arctic refuge, I have had more and more people come up to me in the street—truck drivers, teachers—just come up to me unprovoked and say, don't let them get into the Arctic refuge. It has been actually interesting to me. I have heard more about that from my constituents than perhaps any issue in the last 2 months. I hope that America's sentiment is listened to in this regard.

It is not going to be a solution. As you know, CAFE standards are going to solve a lot more problems. Mark.

Mr. BARTON. This will have to be the last illuminating question.

Mr. MARKEY. To some of these kids, CAFE is on Highland Avenue, so we will have to explain what CAFE is as well.

The final question would be on Prudhoe Bay, the fact that there is 32 to 38 trillion cubic feet of natural gas ready for development—with, by the way, the support of the most liberal Democratic environmental members of the United States Congress—and yet there has been no progress as of yet by the oil and gas industry in drilling and bringing it down.

Before we go to the Arctic refuge, which is a sacred, untrammelled, wild, wild wilderness preserve, what do you think about that? What recommendations could you make to the oil and gas industry about first going to the Prudhoe Bay area?

Mr. INSLEE. I am going to give you a very honest answer, not a cheeky one.

I really do believe that this country is not going to open up the Arctic refuge. I believe that is very much the public sentiment. I believe that the public will come to agree with us that it is not a solution to this problem, long- or short-term. Honestly, if John, a friend of mine in the industry, asked me, I would say, that is not a place we are going to go. That would be my honest, candid, frank and right answer.

Mr. MARKEY. Thank you.

Mr. BARTON. We appreciate your honesty, candor and frankness.

This subcommittee hearing on this particular issue for the Members' testimony is over. We will have future hearings in the very near future.

[Whereupon, at 3:54 p.m., the subcommittee was adjourned.]

[Additional material submitted for the record follows:]

PREPARED STATEMENT OF HON. JOE BACA, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF CALIFORNIA

Chairman Barton and Ranking Member Boucher:

I appreciate the opportunity to testify before this subcommittee, concerning California's energy situation.

The energy crisis is upon us. Deregulation is broken, and California must dig itself out of this hole. We need a stable supply of electricity at a reasonable rate if we are to keep the gold in the Golden State.

Without a consistent supply of power that we control, we will always be at the mercy of out-of-state interests who seek to turn a profit on the backs of consumers. Without control, our whole economy will suffer. It is essential that we maintain our standard of living and our competitive edge. We need to ensure that new industries wish to locate in California.

That is why I met recently with President Fox of Mexico and obtained an agreement from him to supply California with an additional 50 megawatts of power, doubling the amount of power supplied by Mexico to California. This will be enough to serve another 50,000 homes.

Mexico will give us the additional megawatts, but we need the infrastructure and additional power lines. The problem is the United States lacks the required infrastructure. We really need to work on our side. We need to secure additional appropriations for infrastructure.

We need to get in the ball game. That is why I supported Governor Davis's direction to state and local agencies to expedite the review and licensing of new power generation facilities, and I supported his request that federal agencies do the same. I appreciate that in response to the Governor's request, the President will be accelerating federal permit reviews, consistent with federal law and continued protection of public health and the environment.

It is time to enact a national energy policy. That is why I joined my colleagues in signing a letter to President Bush recently, urging him to meet with us. Together we will roll up our shirt sleeves and figure out how to solve these problems.

The national energy policy should include new ways to map how power flows through our nation, to help us identify, in real time, where we need new facilities and transmission lines. The technology exists to do this having been applied by Los Alamos labs to other areas, such as our highway transportation system.

I am co-sponsoring legislation to prohibit out-of-state electricity producers from charging excessive rates (H.R. 238, Hunter, and H.R. 268, Filner). We must protect consumers and businesses in our state. This is about fairness. This is about ensuring that people can make ends meet.

I have also worked on the following measures to address the crisis:

- Letter from California Democratic Congressional Delegation, requesting that the Federal Energy Regulatory Commission (FERC) take immediate action to address the energy crisis on the western region of the country.
- Letter to the United States General Accounting Office requesting a presentation and evaluation of what can be done to increase the electricity supplies in the west as an action to address the energy crisis in the western region of the country.

- Letter and phone call to President Pro Tem John Burton's office supporting the letter from George Miller to Senator Burton in support of SB 33X, to assist the state of California with the energy crisis by purchasing transmission lines.
- Letter to President Bush requesting increased funding for the Low Income Home Energy Assistance Program (LIHEAP), the weatherization assistance program, and the state energy program.

While a solution is being formulated, as energy consumers, we must be as efficient as possible with this commodity. We must encourage family and friends to turn out the lights when not in use, reduce the use of outside and decorative lighting, turn our thermostats down at night, make full use of the sun to light and heat our home during the day, close the drapes at night and chimney vent when not in use.

We should not be interested in assigning blame, only in finding ways to resolve the crisis. While state lawmakers are working on a resolution, I am concerned about the human impact of the crisis: how are these stage three alerts affecting the elderly, infirm, low income residents in particular?

Our focus should be on information dissemination. For instance, many low-income families are not aware of the care program which provides a 15% discount off their electric bills if they meet the qualifications and income guidelines. We are also sharing conservation tips for all consumers, but targeting seniors in particular.

I am concerned with how this energy crisis will affect our economy—both in the growth and development of small business, as well as the increase in rates to all consumers.

We need to provide for America's long-term needs, whether through conservation or new production. The continued health of businesses depends upon reducing price swings for energy.

I am concerned that proposed budget cuts may harm our long-term national interests, taking funds away from renewable energy research. We need to explore all energy alternatives.

The time to act is now. We will work hard, we will succeed.

PREPARED STATEMENT OF HON. RANDY "DUKE" CUNNINGHAM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Subcommittee Chairman Barton, Ranking Member Boucher, and Members of the Subcommittee, I rise today to speak in support of federal efforts to assist California in addressing our ongoing energy crisis.

Mr. Chairman, California needs relief. In Congress, you will find no greater proponent of capitalism and free markets than myself. However, due to the current crisis I support temporary price caps on wholesale electricity in the Western United States. We need relief.

I would urge you to listen to FERC commissioner, William Massey, who said, "Runaway prices, like we have out West in electricity markets, are both unlawful and politically unacceptable. Consumers see these prices as a blatant rip-off, and I fear that we are on the verge of a political backlash... I believe we need a temporary timeout in western electric markets. I would cap bids into the spot markets... Without some price mitigation, not only the utilities but the state of California may go broke."

My constituents are suffering. Consumers, businesses, schools, and local governments are the victims of actions and powers beyond their control. Furthermore, if we are not afforded relief, we will likely see a consumer outrage that will harm any future effort to bring competitive markets to electricity producers and utilities.

Last week, the California delegation met with FERC Chairman Hebert who expressed his continued opposition to price caps. This outright opposition to temporary price caps, which could provide us the opportunity to get back on our feet, is harmful to the people of California and America.

Mr. Chairman over the last year, we in California we have been overcharged by power companies. The California Independent System Operator (ISO) has issued a report showing that we were overcharged \$555 million in December and January alone. This has been accomplished by power generators taking advantage of energy shortages to increase prices. This report by ISO, which runs the electricity grid, said that when it needed to buy last-minute power to avoid blackouts in December and January, energy producers raised rates to outrageous levels, and the ISO had no choice but to pay them.

Those energy shortages came amid an unusually high number of shutdowns of power plants, which are owned by energy companies. Many people are asking about the timing of these shutdowns and their potential connection to the extraordinary

price hikes. Currently, the ISO has filed a motion with the FERC for refunds of those overcharges. The FERC has 60 days to respond.

I would urge all my colleagues to examine this report of gross overcharges. And should FERC not act, we must.

I know this isn't a popular position for us to take; and it is certainly a deviation from my free-market beliefs. However, we need relief in California. While this is a state created problem, the people of California are looking to the federal government for relief.

Mr. Chairman, I support the legislation sponsored by my colleague, Mr. Hunter, for temporary price caps. I urge the committee to consider solutions that will provide relief to the people of California while we try to solve this problem.

Mr. Chairman thanks for holding this hearing today. I appreciate the opportunity to share my concerns with you.

PREPARED STATEMENT OF HON. RANDY "DUKE" CUNNINGHAM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Subcommittee Chairman Barton, Ranking Member Boucher, and Members of the Subcommittee, I rise today to speak in support of an important component of a National Energy Strategy, specifically the Energy Efficient Buildings Incentives Act (H.R. 778).

California, specifically San Diego's North County has become the poster child for energy problems in America. Last winter and summer we were hit hard by a failed regulation proposal combined with a lack of in-state generation. This combination created shortages and extreme price fluctuations.

As many of you know, this problem is ongoing. This winter has been tragic and included rolling blackouts. Earlier today, you heard from many members about this ongoing problem. Many regions across the country face severe challenges to their electric grid, with California being the extreme example. In addition, all across America the situation is likely to get a whole lot worse before it gets better.

New York may have serious disruptions in electricity distribution this summer and the Central U.S. may again experience similar problems to those of last year. More troubling, this summer California may have more than a price problem. We may actually be unable to get power at any price.

The problem is an imbalance between supply and demand, which has driven up the price of electricity several-fold compared to last year. This has resulted in increased prices for consumers, and compromised the financial stability of utilities and businesses.

The nation is in desperate need of a comprehensive energy policy. We must have a policy that looks at the supply side, new avenues of production and generation, as well as the demand side, innovative conservation alternatives. These policies should consider the costs and risks to consumers and businesses. They should also provide incentives for economic growth and environmental protection.

I have no illusions that developing a national consensus on a comprehensive energy policy will be easy. But, I am fairly confident that we will pass bi-partisan legislation, which will meet our growing need for energy.

I believe one major piece of the comprehensive energy policy will be an expanded effort to increase energy efficiency by end users. Energy efficiency was an important part of President Bush's energy strategy of 1991 and has been the cornerstone of a number of state efforts.

To this end, Mr. Markey of Massachusetts and I have introduced the Energy Efficient Buildings Incentives Act (H.R. 778). This is a companion to Sen. Bob Smith's S. 207 in the Senate. This legislation is designed to give new impetus to energy efficiency in buildings. This avenue shows the greatest short-term as well as long-term promise.

Increasing energy efficiency is one of the few policy tools that can make an immediate difference. Within a matter of months after passage of this legislation, manufacturers and building designers will be able to provide significantly increased energy efficient technology to families and to businesses.

These new technologies will help in two ways: first, the consumers who utilize them will immediately see lower energy bills. Second, as homes and businesses become more efficient, we will see reduced price pressure on fuels, and prices will come down.

The sooner we can introduce energy efficiency into the marketplace, the sooner consumers and businesses will start to see solutions to their energy problems.

Congress has passed several important pieces of bipartisan energy legislation over the past 15 years. These laws provide for more competitive energy markets.

They also provide for federal standards on the efficiency of appliances and equipment, and for federal assistance to states considering building efficiency standards. They also provide tax incentives on the production side of the energy equation.

Utilities have also learned over the past 20 years how to develop incentives that can encourage energy efficiency. Utilities have been very successful in promoting improvements in energy efficiency.

However, there are two powerful difficulties when it comes to encouraging state-of-the-art improvements in energy efficiency, and that is why we need to work through the tax code.

The first problem is that energy-consuming devices are produced for national markets, but utilities only serve a single region.

Even if a utility offers attractive incentives for, say, an advanced new air conditioner, manufacturers will not be inclined to produce the product because their production has to be geared to national or even global demands, not those of a single region. National incentives will solve this problem.

The second difficulty is timing. A major commercial building often takes over 2 years to construct. If the architect learns that the utility is offering an incentive for energy efficiency, the first question he or she will ask is: will the incentive still be available in 30 months when my building is finished?

Most utilities will have to answer that they cannot ensure that this is the case. Therefore, the architect will refrain from making the commitment to energy efficiency.

The efficiency investments that will be made are for minor changes in the design at the last minute that can be implemented during a period when the incentive is known to be available.

H.R. 778 addresses both of these problems and sets the stage for unleashing a wave of new technology that can provide major advances in energy efficiency in the easiest manner.

HR 778 provides incentives for enhanced energy efficiency in buildings, because buildings account for over \$300 billion a year in energy costs and account for over a third of pollution emissions in the United States.

There are opportunities for new technology to save from 30% to 50%, and maybe even more of energy costs, while enhancing the productivity of workers in the buildings and increasing the comfort of families at home.

HR 778 targets the entire set of building-related energy systems, including: Non-residential buildings, commercial buildings such as offices, stores, warehouses, etc., as well as public buildings such as schools, and rental housing.

Homes, including single-family, multi-family, and manufactured homes. Heating, cooling, and water heating equipment; and solar photovoltaic and water heating equipment. It provides incentives based on energy performance, not on cost.

This structure is different from the energy efficiency tax incentives of the 1970's, which were based on cost and are perceived by many to have failed. These targets are ambitious but realistic.

If they were less ambitious, there would be a risk of paying for energy efficiency investments that would have happened anyway. If they are too ambitious, no one would claim the tax incentive, which would fail to accomplish the purpose of the energy policy.

The bill provides tax incentives for a fixed time period and are intended to be temporary through the end of taxable year 2007. Six years should be sufficient to provide financial reasons for manufacturers to invest in plants producing efficient equipment.

This should also be enough time for designers and contractors to get additional education and training in energy efficient design, construction practices, and to establish competitive markets for more efficient buildings and equipment.

At the end of 6 years, I anticipate that the markets for energy efficiency will be strong enough that these tax incentives will no longer be needed. I believe that these incentives can transform the markets for energy efficient buildings over these 6 years, as several utility-sponsored programs have done in the past.

This is because they rely on market forces, and establish a level playing field for competition between different industries and different companies.

HR 778 will reduce energy demand and bring quick relief to the power grid, which will help alleviate electric supply problems. That is why HR 778 is so broadly endorsed by utilities, including all of California's major electric utilities and many national power generators as well.

But the legislation also has significant environmental benefits to the nation. It will reduce America's greenhouse gas pollution emissions, as well as air pollution emissions, by 3% by the year 2010.

That is why this bill is endorsed by the nation's major environmental organizations. We have worked hard to deliver a bill that has both bipartisan support in the congress and support from the business and environmental community.

Although the primary motivations for this bill are to help solve America's energy policy problems and reduce emissions, there are also large economic benefits of the bill.

By reducing energy costs for businesses, which are tax-deductible, it will actually increase revenues to the Treasury over a 5-year period. Energy efficiency can be an excellent investment, with returns of 25% per year and better. By stimulating such investment, this bill will save businesses and families over \$40 billion on net by 2010.

The benefits of this bill grow over time, as more and more energy-efficient buildings are constructed and the technologies for efficiency get cheaper and better due to competition. I want to close by saying that the solution to California and America's energy problems is not found on the supply side alone. We must address demand, and our bill will do that. I want to thank you for the opportunity to come before the Committee today. After swift enactment, we can all enjoy lower energy bills and a better environment.

PREPARED STATEMENT OF HON. PETER A. DEFazio, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF OREGON

INTRODUCTION

Chairman Barton, Ranking Member Boucher, and Members of this Committee, I appreciate the opportunity to testify here today on an issue that is of critical importance to the economy, the environment, and the quality of life in the Western United States—the errant electricity “market.”

Let me be clear at the outset, the energy debacle in the West is not just a regional problem requiring regional or state-specific solutions. Rather, the misguided energy deregulation wave set in motion by the U.S. Congress in 1992 is a threat to the well-being of the entire nation and will require leadership from the highest positions of power in our national government to solve.

Unfortunately, the White House, the Department of Energy (DOE), and the Federal Energy Regulatory Commission (FERC) seem content to let the bloodletting and obscene profiteering continue unimpeded. I guess we shouldn't be surprised since the chief beneficiaries of this massive transfer of wealth from taxpayers to energy companies just happened to contribute huge financial sums toward the election of the current Administration.

There is no excuse for the Administration and Congress to continue abdicating their responsibility to help solve the energy crisis.

By way of background, I have been deeply involved in energy issues for more than two decades. In the late 1970s-early 1980s, I helped lead a group of residential ratepayer activists in halting the Washington Public Power Supply System's (WPPSS, pronounced “Whoops”) nuclear power plant investments. These investments were such a colossal misjudgment that ratepayers in the Northwest are still paying for it. I fought President Reagan's attempt to push energy deregulation on unwilling consumers in 1987. I was also one of only two Conference Committee members and one of only 60 members of the House to vote against the 1992 Energy Policy Act. This law is responsible for allowing California and other states to get us into the mess we're discussing today.

I will address the specific problems facing California and the Northwest shortly. But first, I want to provide some brief historical context for the current debate and describe the fundamental shortfalls of a deregulated energy market, which will continue to wreck havoc across the United States until policymakers come to their senses.

HISTORICAL CONTEXT FOR ELECTRICITY DEREGULATION DEBATE

The last time the United States had a deregulated electricity market was in 1932. Astute students of history will recognize this was during the Great Depression. Is that a coincidence? Perhaps, but it certainly did not help restore stability to the economy. Deregulation ended with the collapse of the “Insull Empire” (a huge multi-state conglomerate similar to today's Enron). The collapse threatened to blackout the entire industrial heartland of the Midwest.

Franklin Delano Roosevelt described the situation in his 1933 book, *Looking Forward*. Since his words sound eerily relevant to today, it is worth quoting him at length:

“Through lack of vigilance in state capitals and in the national government, we have allowed many utility companies to get around the common law, to capitalize themselves without regard to actual investment made in property, to pyramid capital through holding companies and without restraint of law.

The investing public did not realize then, as it does now, that the methods used in building up these holding companies were wholly contrary to every sound public policy... They did not realize that some subsidiaries had been milked and milked to keep alive the weaker sisters in the great chain. They did not realize that there had been borrowings and lendings, an interchange of assets, of liabilities, and of capital between the component parts of the whole. They did not realize that all these conditions necessitated terrific overcharges for service by these corporations.”¹

Similarly, in a letter to Congress, President Roosevelt wrote:

“[The holding company] is a corporate invention which can give a few corporate insiders unwarranted and intolerable powers over other people’s money. In its destruction of local control and its substitution of absentee management, it has built up in the public-utility field what has justly been called a system of private socialism which is inimical to the welfare of a free people.”²

The same could be said of today’s runaway holding companies like Enron, Dynergy, and others who have transferred billions in wealth from subsidiaries operating in California to the parent corporation while the subsidiaries then plead poverty to government officials and demand a taxpayer bailout. Seven out-of-state power producers operating in California had after-tax profits totaling \$4.7 billion from April to December of 2000. For example, Duke Energy made \$1.3 billion. Dynergy, \$373 million. Enron, \$928 million. And Reliant, \$613 million.⁰

Fortunately, in the 1930s, Congress quickly came to the rescue after the collapse of the Insull Empire in the 1930s through the creation of the New York State Power Authority in 1931, the Federal Public Works Administration in 1933, the Bonneville Power Administration in 1937, as well as enactment of the Tennessee Valley Act of 1933, the Public Utility Holding Company Act of 1935, the Federal Power Act of 1935, and the Rural Electrification Act of 1936. These laws set up the mixed federal and state regulatory structure that provided affordable, reliable electricity for the next 60 years, thus setting the stage for the economic boom years that soon followed. I fear this Congress and this Administration will not have similar foresight.

FUNDAMENTAL MISCALCULATIONS OF DEREGULATION PROPONENTS

In discussions of energy policy, I often read or hear the line “no one could have foreseen the current problems.” I beg to differ. I and a small number of energy deregulation critics predicted just this sort of disaster.

Actually, it is not widely known, but even the U.S. Department of Agriculture (USDA) predicted problems for rural America due to energy deregulation in a January 1999 report. This report was leaked to the press and subsequently buried in the bureaucracy under pressure by the DOE. The full report has still never been released. But, the conclusions in the leaked portion are as startling as they are instructive. The USDA projected electric rates would increase for residents of 19 states, including my home state of Oregon. The report also noted, “Economic growth will slow under competitive pricing by up to one-half percentage point in those states that experience increases in electric utility rates under competitive pricing.”⁴

Let me take a step back for a minute, beginning in the mid-1930s and for more than 60 years, utilities were regulated monopolies with a statutory and regulatory duty to serve customers. In return, utilities were allowed to charge rates to recover their investments in infrastructure and operational costs while also being allowed a reasonable profit (so-called “cost-based-plus rates”).

I agree there are a lot of things markets do very well. Reasonable price competition tends to allocate social and economic resources more efficiently than a command and control economy. Innovation is rewarded. Consumers are offered a broad array of choices.

But, we know—or ought to know—that unregulated and under-regulated markets have significant shortcomings. These markets lead directly to monopolies, price fixing and other uncompetitive practices. Markets also aren’t very good at accounting for environmental costs.

And, in the world of electricity, universal service was not a natural goal of the market, but rather had to be achieved through regulation. The same could be said of energy conservation today.

As I’ve repeatedly stated, the fact that free markets are good doesn’t mean that freer markets are always better. That is certainly true for the generation, transmission and distribution of electricity.

In 1992, with little scrutiny or public attention, Congress adopted and President George H.W. Bush signed the 1992 Energy Policy Act. This legislation delegated tremendous power to FERC to mandate transmission and wholesale competition and opened the door for states to deregulate retail electricity. In 1996, FERC adopted sweeping rules mandating transmission deregulation and ushered in a new market in which independent energy generators could sell power to the highest bidder—with no responsibility to serve residential consumers.

Deregulation was based on two principal arguments. First, proponents argued consumers were demanding to “choose” their energy provider the same way they choose their long-distance phone provider. Second, they argued deregulation would create a more efficient and innovative marketplace that would not only bring huge savings to big business, which was pushing the scheme, but to all consumers.

The first point was sheer fabrication. In hundreds of town halls, I was never once asked by a constituent that they be given the right to shop around for an electricity provider. And, why should they? When they flipped the switch, the lights came on. When they turned on the hot water, it flowed. When they received their electricity bill, it was reasonably priced. This lack of consumer interest has been borne out in states that have deregulated. In California, less than one percent of residential and small-business customers have opted to switch providers. Other states have experienced similar results.

On the second point, not surprisingly, what sounds logical in an economics textbook doesn’t work when put into practice.

Of course, when we talk about deregulating the electric utility industry, we aren’t talking about creating a truly unregulated free market. Electricity will still remain essentially a natural monopoly, with barriers to market entry extremely high. Besides the obvious downside of three or four competing sets of wires running down every residential street, there are equally obvious inefficiencies from this kind of competition.

Rather, “deregulation” essentially replaces one rule book that was designed to promote social, environmental, and reasonable profit goals with another set of rules designed to create winners and losers while padding the bottom line of a few large corporations.

WHAT’S WRONG AND NOT WRONG IN THE WEST?

The media, energy experts, and many of my colleagues in Congress point to a host of causes of the California energy crisis, which has spread north to my home of Oregon and elsewhere in the Northwest and West.

As is probably clear from what I’ve said so far, I place much of the blame on the 1992 Energy Policy Act and the state-level deregulations that followed.

Let me address some of the most common sources of blame as described by deregulation proponents, which may contain a small nugget of truth, but are largely based in myth perpetuated by rigid ideology.

Consumer Price Caps:

No one disputes the California State Legislature passed a deregulation law (AB 1890) in 1996 that included a retail rate freeze over the transition period, set to expire before March 31, 2002. Under the deregulation law, small consumers were guaranteed immediate rate reductions and promised future decreases. The quid pro quo was that the utilities could collect from consumers the “stranded costs” of unprofitable investments made under the regulated regime. At the time the rates were frozen, they were substantially higher than market rates. Thus, for several years the price caps people are pointing to now as destroying competition were actually artificially high price floors. The frozen rates, that many argue need upward revision, were 50% higher than the average energy costs and have produced \$17.6 billion in excess revenue for two of the major energy companies.⁵

The only area to truly deregulate both wholesale and retail prices was San Diego. For those who preach we can solve the ills of energy deregulation with still more deregulation apparently learned nothing from the unmitigated disaster in San Diego. As required by the original California deregulation legislation, price caps in the San Diego area were lifted after San Diego Gas and Electric’s stranded costs were recovered from consumers. Thus, consumers in the San Diego did feel the full impact of the volatile energy market the past summer. The sudden and staggering increased energy expense caused consumers and businesses in that conservative part of the State to angrily demand immediate relief. In September, the California State Legislature capped San Diego rates once again in response to the ratepayer revolt.

One argument against price caps is that they impair the free market to send price signals to consumers to conserve. The run-up in prices in San Diego, which at times

reached 150 percent, should have caused a drastic reduction in energy use. In reality, the runaway prices resulted in only a 9 percent curtailment of energy consumption.⁶ Given the essential nature of energy for homes and businesses, a certain static level of demand exists regardless of the price. Economists refer to this as price inelasticity. An essential good which is price inelastic does not dramatically respond to increases in price. Another way of putting this is if we have a 50 percent increase or 350 percent increase in residential utility bills, consumers can only conserve so much in the short-term and invest in energy efficiency for the long-term. One study found that—if all costs were passed on to consumers, the average residential monthly consumer, who paid approximately \$55 a month before deregulation, would have paid approximately \$600 a month when prices spiked in California this winter.”⁷

I don't know about your district, but there aren't too many people in the 4th District of Oregon who could afford a \$600 monthly “price signal.”

I would urge those who merely blame California for not “fully” deregulating because residential rate caps were maintained to go tell their own constituents in a town hall meeting that a \$600 monthly bill is actually good for them because the price signal will cause them to conserve energy and help bring demand and supply into line. If anyone on the Committee is willing to do this, I'd be interested in a report back on what happens.

The free market model which should send price signals is further complicated by a concentration of power in the hands of a limited number of energy producers and marketers. Without any type of protection, the incentives lie with profit-oriented utilities who can withhold energy generation, see market-prices increase, and then deliver huge returns to shareholders.

In short, I think it is irrational and uninformed to argue that rate freezes, intended to protect consumers, are wholly or partially responsible for the California energy crisis. Further, I disagree with those who advocate for dramatically increased rates for Pacific Gas and Electric (PG&E) or Southern California Edison (SCE) customers.

California's Utilities are Bankrupt:

California's investor-owned utilities claim they need approximately \$12 million from either ratepayers or taxpayers to cover the expenses they incurred in the high wholesale energy market. An investor-owned utility in Oregon recently received a \$2 million billing from the California Power Exchange (PX) to cover SCEs debt. SCEs assets have not been frozen nor has there been an effort to collect from the parent corporation. While no one can dispute a huge difference in the price California utilities paid for energy and the price they charged for energy, the need for a bailout deserves some serious scrutiny.

First and foremost, it is important to note that PG&E and SCE did not completely divest themselves of all their generation capacity. Of the generation assets they sold, they received approximately three times book value.⁸ The generation the investor-owned utilities retained was sold according to the rules of the California Power Exchange. During the first eight months of 2000, PG&E and SCE generated approximately \$3 billion in revenues from generation they owned and sold through the California PX. The California restructuring plan allows the utilities to add those excess revenues to their stranded cost recovery fund.⁹

In addition to the fuzzy math dealing with stranded costs and revenues from retained generation, PG&E and SCE are wholly-owned subsidiaries of PG&E Corporation and Edison International. According to an audit commissioned by the California Public Utility Commission, PG&E transferred \$4 billion to its parent corporation between 1997 and 1999. In addition, for the first nine months of 2000, PG&E transferred an additional \$632 million to corporate headquarters. We see similar trends with SCE. The parent companies are refusing to use their vast resources to assist their subsidiaries. In the case of PG&E, the parent corporation created a ring fence in late December to shelter itself from the debts of its subsidiaries.¹⁰

PG&E and SCE supported the California deregulation law. One would assume that they also understood and assumed the risk inherent with the structure of the deregulated market, such as continually operating in the spot market. The audits of their financial situation revealed that both utilities made a series of business decisions which accelerated their current financial difficulties.

While the investor-owned utilities are crying poor, independent energy generators are raking in huge revenues from the inflated market. Financial Times Energy Insight evaluated the revenue flow from four out-of-state generators and found a five-fold increase in revenues.¹¹

The take home message here is that we need to look closer at the real accounting behind the claims of PG&E and SCE. It is quite possible that the culmination of stranded cost recovery and record revenues from independent generators negate the

need to raise consumer rates or impose an undue burden on taxpayers for a utility bailout.

Market Manipulation:

Proponents of deregulation claim increased demand is the cause of power shortages. However, the facts dispute. For example, Data from the California ISO shows power demand during the last six months of 2000 was actually lower in four of those months—July, August, October and December—than in the same period in 1999. Demand was only slightly above 1998 levels.¹² In addition, “there have been blackouts when demand was less than 30,000 megawatts, approximately 15,600 megawatts less demand than the peak amount of electricity needed in California in the summer.”¹³

In addition to need for more scrutiny for utility bankruptcy claims, I also think Congress needs to exercise oversight on claims of market manipulation. Many critics of California’s energy suppliers argue that suppliers are deliberately withholding generation to manipulate market prices. While the Federal Energy Regulatory Commission (FERC) recently released a study which failed to document collusion, other independent investigations are coming to opposite conclusions. Personally, I am skeptical whether the methodology used by FERC, which included phone calls, only three visits to plants in California, and visits to company headquarters in Texas, was rigorous enough to reach a final conclusion about market manipulation.

An independent analysis of the potential market manipulation coauthored by an MIT Economics Professor concluded that there is considerable empirical evidence to support a presumption that high prices experienced in the summer of 2000 reflect a withholding of supplies from the market by suppliers.¹⁴ The Wall Street Journal also reported that a Stanford economics professor who is a member of the Independent System Operators market-monitoring committee suspects market manipulation.¹⁵

Last month, the California Independent Systems Operator (ISO) reported 30 unplanned shutdowns. I recognize that all plants have to perform maintenance, and that a substantial amount of maintenance was deferred. However, in other deregulated wholesale markets, including New England, there is a documented increase in unscheduled maintenance. Based on New England ISO data, Synapse Energy Economics found that following deregulation, the average amount of generating capacity out of service each weekday increased by 47%. The same study indicates that forced steam plant outages, which account for a substantial amount of New England’s power supply, doubled following deregulation. It shouldn’t then be surprising that wholesale spot market rates reached all time highs following deregulation.¹⁶

Whether energy providers are deliberately manipulating the market or not, no one can dispute that in a deregulated market, generators have no duty to serve consumers. They also have no mandate to keep adequate resources in reserve. According to the California Energy Commission, the California Energy Grid typically had between 15 to 20% of excess capacity. Commission analysts project that a deregulated market will only result in a reserve margin of 7%.¹⁷

I support a wholesale energy market which prices power at cost, with a reasonable return margin, and requires energy producers to keep excess generation in reserve. Economics 101 will tell you that deregulation will not accomplish these goals. Under a deregulated system, what incentive exists to build excess generation to hold in reserve? When supplies are tight, prices go up as do profits. No rational executive would then build reserve generation to drive prices and profits down. That’s heresy to free market ideologues.

Environmental Restrictions:

Several weeks ago as I was traveling through my district I listened into a local talk radio program. The host kept asserting that environmental extremists were responsible for a power shortage in California by opposing new construction of power plants and imposing air quality standards on existing plants. I can only assume the talk show host was referencing plant siting processes and clean air requirements. While this makes for sensational talk show banter, it does not reflect reality.

Take for instance the comments of major energy producers in California. In a January 25th *Los Angeles Times* article, the spokesman for a California energy marketer, Reliant Energy, stated that claims air quality restrictions were holding back output were “absolutely false.” In reality, only 100 megawatts of generation from a city-owned utility in Glendale, California was curtailed due to air quality concerns. The city utility still had plenty of power available to serve its customers and transmission constraints limited their ability to ship extra megawatts to Northern California.¹⁸

Critics of government regulation also point to long citing processes and opposition by environmental and community organizations to new plants as inhibitors to new energy generation. In the Coyote Valley, south of San Jose, the Sierra Club, American Lung Association, the NAACP, and Chamber of Commerce all supported the construction of a 600 megawatt Metcalf Energy Center. It was not environmentalists who opposed this site, it was Cisco Systems and the San Jose City Council.¹⁹ California has 6,278 MW of new generation approved and ready for distribution by 2001, with an additional 6,734 MW currently under consideration. The price signals have already been sent. What's the use in further gouging consumers?

The bottom line is that there are a lot of problems with the California deregulation framework. Environmental opposition is not one of them.

California Is An Anomaly:

To date twenty-three state legislatures have approved some form of wholesale and/or retail deregulation.²⁰ Pennsylvania and Massachusetts are often pointed to as success stories for deregulation. The Pennsylvania plan is geared more towards retail deregulation than wholesale deregulation. The plan does not require generators to sell assets, allows long-term contracting, and freezes consumer rates. The highly acclaimed consumer choice program has only resulted in 11 percent of Pennsylvania consumers choosing a different energy provider.²¹ The Pennsylvania plan also required consumers to pay utilities around \$10 billion in stranded costs and capped residential retail rates for at least 10 years. That's not deregulation. Like San Diego, it is likely prices will spike when the caps are withdrawn.

Massachusetts has also deregulated its electricity system, but high prices promoted FERC to impose rate caps for the New York and New England grid last year.²² Interestingly, Massachusetts consumers are moving towards municipal aggregation in an effort to have more control over their energy supply and price.²³

We all agree there are better models for deregulation than California. However, if every deregulated state imposes rate freezes for consumers and other regulations to make the "market" work, I wonder, why deregulate in the first place?

This fundamental question might explain why several states, including Idaho and Utah have put their deregulation plans on hold. The promise of lower and more reliable energy from deregulation has yet to be realized. Instead, consumers and energy companies outside of deregulated states are beginning to feel the impact of volatile energy markets though higher energy costs and difficulty attracting capital for new investments.

Future:

Last month I attended the Western Governors Association meeting on the West Coast energy crisis. Eight of eleven Western Governors advocated for a short-term return to cost plus energy rates until the West Coast energy markets returned to normal. Many of the panelists, including FERC Chairman Curt Hebert and executives from Enron, Dynegy, and Edison Electric adamantly opposed these rate caps seeing them as the cause instead of the cure to these prices. Let's be honest here for a minute. Everyone in this room knows that the exorbitant increases in energy will negatively impact consumers, small business, and big industry. Politicians will make accommodations to protect those interests. So in California, the state is bailing out utilities by entering into long-term contracts with marketers. In the Northwest, local utilities and federal power marketing agencies are paying industry to not use power. While folks are saying let the free market work what I see is a privatization of the profits and a socialization of the risks. Energy generators continue to profit from the volatility and uncertainty of the wholesale market while taxpayers and ratepayers bail out business interests. Is this really the free market working?

For years the Northwest and California have had a symbiotic relationship which has minimized the need to overbuild the energy infrastructure. In cold winter months, the Pacific Northwest has imported California power while returning the favor as California's temperature rises in the summer. When California's markets went berserk, the Pacific Northwest had to purchase power in that inflated market. Utilities in Washington and Oregon have already raised rates between 15 and 50%. Given a drought and federally imposed salmon recovery constraints, the Bonneville Power Administration is proposing between 60 and 160% rate increase. This is in addition to what has already been approved. While I recognize that Northwest energy rates are some of the lowest in the country, a doubling of rates in a two year time frame is crippling.

The California crisis is clearly affecting Washington, Oregon, Montana, Idaho, Arizona, and New Mexico. Policymakers in Congress and the Administration can not continue to sit idle while businesses are losing millions of dollars in revenues and consumers are experiencing financial distress caused by increased energy costs.

WHAT IS THE SOLUTION?

Let me briefly touch on what will not solve the energy crisis in the West. I find it totally disingenuous and incredibly insulting that Secretary Norton and others are using the West Coast energy crisis as an excuse to develop oil in the Arctic National Wildlife Refuge. There is absolutely no correlation.

Drilling in general will not solve the crisis, which is not fundamentally about demand.

So what is the solution?

I have introduced legislation, HR 264, to repeal FERC orders 888 and 889. This would return the U.S. to the pre-1992 system of regulated utility monopolies and cost-based-plus pricing. Support is building for re-regulation, which is the best long-term solution. To those who say we're already too far down the deregulation road, I would offer the analogy provide by Jude Noland in a recent column in the newsletter *Clearing Up*, "That's like saying you can't turn around when you come to a 'road-closed—bridge out' sign on the highway."

I would urge my colleagues to support HR 264.

If Congress is not ready to admit energy deregulation was a mistake, there other short-term and long-term steps that can be taken to mitigate the unfolding disaster.

First, temporary price caps must be imposed in the West. Despite President Bush's rhetoric about the need for California to solve its own problems, temporary price caps can only be imposed by his Administration through FERC. FERC Commissioner William Massey supports price caps and has reminded his colleagues, so far without success, that FERC has a statutory obligation to ensure prices are "just and reasonable." Prices should be based on the cost of generation, plus a reasonable profit. Profits made through unreasonable pricing should be refunded to ratepayers.

Second, we must dramatically expand federal investment in alternative and renewable energy. My region is already contributing to this effort. The Bonneville Power Administration just announced a five-year, \$200 million investment in conservation and renewable energy efforts. Solar and wind generation, fuel cell technology, and biomass all have the potential to produce vast amounts of clean, reliable, affordable electricity. Congress should mandate a certain percentage of electricity generation come from renewable sources.

Third, conservation efforts must be expanded. Oregonians have already gotten price signals and are trying to do our share. Consumption in Oregon and Washington declined by 2-4 percent in December and January. Even Californians cut energy usage by 8 percent last month. The conservation effort should also include increasing CAFE standards.

Fourth, Congress must reinstate the ban on Alaskan oil exports. I have introduced legislation, H.R. 660, with Representative Hooley to do just that.

Fifth, Congress must expand assistance for those who have been hardest hit by volatility in energy markets. This should include increased funding for LIHEAP, the Weatherization Assistance Program, and the State Energy Program.

Sixth, Congress should impose a Windfall Profits Tax on energy companies whose rates are found not to be "just and reasonable." This would remove the incentive for market manipulation.

Finally, Congress should create incentives and/or remove barriers to promote public and municipal power. When much of California was suffering through rolling blackouts, the 30 percent of Californians with municipal power were not hurt. In fact, the public power agency in Los Angeles had a surplus of power to sell. While rates in San Diego soared to \$138.50, prices in L.A. were around \$50 a month. Government is often demonized, but energy generation and distribution is one activity public agencies in California have done with more reliability and at a lower cost than the private market.

Again, I appreciate the opportunity to share my views with you. I would be happy to answer any questions you might have.

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PREPARED STATEMENT OF HON. RICHARD A. GEPHARDT, DEMOCRATIC LEADER AND
HON. MARTIN FROST, CHAIRMAN, DEMOCRATIC CAUCUS

We want to thank the Committee on Energy and Commerce and the Subcommittee on Energy and Power for calling this hearing today. Since early 2000, we have been reminded that unstable energy prices and supplies pose a tremendous threat to even a strong economy. The situation in California and the sharp rise in home heating costs this winter, underscore that energy is one of the most important issues facing the Congress this year. High prices and unreliable supplies have an immediate affect on the quality of life of every family and the success of every business. Our goal should be to attack this problem on all fronts, and to do so in a manner that provides the most help to consumers today. The energy proposals put forward by the Bush Administration fail on both points.

We cannot endorse an energy policy that relies solely on drilling in the Artic National Wildlife Refuge as the answer to all that ails us. We cannot endorse an energy policy that ignores conservation, shortchanges research and development, and limits the funds for weatherization and low-income energy assistance. We hope we can work together, Democrats and Republicans, North and South, East and West, to forge a policy that will reflect national realities in the 21st Century.

The Democratic Caucus Energy Task Force will work in tandem with and in cooperation with our Democratic colleagues on this Committee and the other committees with jurisdiction over the various components of energy policy. It is also our hope to work with Vice President Cheney and other Republican leaders to find common ground on energy policy to benefit American families.

We recognize that our current energy situation is the result of a myriad of inter-connecting factors that cannot be resolved with a quick fix. However, we do believe there are short-term solutions that can help consumers in the months ahead.

It is for that reason we must seriously question the priorities of the new Administration when their budget affectively cuts the Department of Energy's (DOE) non-defense programs over ten percent. During the Fall campaign, President Bush called for a doubling of funds for the low income weatherization program. His budget unfortunately falls \$40 million short of that goal in 2002 alone—and \$450 million short over ten years. In fact, the Bush plan simply restores the program to the level it was at under the Clinton Administration, before it was severely cut when Republicans took control of Congress in 1995. Absent these shortsighted cuts, DOE has estimated that an additional 250,000 homes would be weatherized today. These 250,000 families—who get nothing under the Bush tax plan—would be saving hundreds of dollars per family per year.

Despite his campaign statements in support of the LIHEAP program, that helps the low-income families pay their heating and cooling bills, the Bush Budget is silent on LIHEAP funding. The only reference to LIHEAP in the budget notes how LIHEAP funds can be diverted to the weatherization program. It raises the question whether the Administration plans to pay for its increase in weatherization at the expense of LIHEAP. Today, despite record high prices and recent winter storms,

fewer than one in three eligible families get LIHEAP assistance because the program is not fully funded.

In this regard, we encourage this Subcommittee to take up and pass H.R. 683, the Emergency Energy Response Act of 2001, which was introduced by Congressman Markey and and Congressman Frost and which is supported by a wide range of Members of the Democratic Caucus. This legislation substantially increases funding for LIHEAP and weatherization, increases funding for state energy programs, requires federal facility managers to immediately evaluate opportunities to increase energy efficiency and installation of renewable energy projects, and which strengthens the Federal Energy Management Program, which promotes greater energy efficiency in the federal government's use of energy. This is a constructive first step and we urge to act on it soon.

We believe the Congress must address infrastructure deficiencies, the new relationships between the states and the federal government, tax policies that can encourage production and construction of new facilities to produce energy, policies that can reduce the demand for oil, as well as how we can ensure an adequate supply of fuels to produce the energy this country needs.

For example, natural gas is the fuel of choice for most new electricity generation plants coming on line or in the planning stages. Reserves of this fuel are all but depleted, but at the same time there is an abundant supply waiting to be tapped. In the vicinity of Prudhoe Bay on the Alaskan North Slope there is an estimated 32 to 38 trillion cubic feet of natural gas ready for development—all in an area that does not compromise the environment. While the infrastructure to bring this fuel south has yet to be put into place, this is an area well worth exploring considering that the U.S Geological Survey has estimated that with additional exploration, the potential could be double the current estimate.

The Bush budget is silent on improving the integrity of our pipeline systems, other than to propose to continue to charge pipeline owners tens of millions per year to cover the cost of an inadequate federal safety inspection system. Pipeline accidents killed 17 people last year. These mishaps contributed to major energy supply disruptions in multiple regions of the country. This failed safety system costs money and costs lives.

President Bush campaigned as a supporter of conservation and renewable energy, but his energy budget will compel major cuts in these programs. In fact, the Bush budget states that any increase in solar and renewable programs will only come if drilling is allowed the Arctic Wilderness. Even if this controversial drilling proposal became law, solar and renewable programs would have to wait another three years before getting even a dime even by the Administration's own estimate.

According to the Rocky Mountain Institute, since the 1970's, America has saved more than twice as much energy through conservation and improved efficiency than was produced from new sources. Despite that fact, the Bush Administration's "comprehensive energy policy" described in their budget does not even use the words "conservation" or "efficiency." This is a particularly glaring omission when many meaningful conservation and efficiency measures can be put in place as quickly as it takes to change a light bulb. We do not need to tell the consumers in California—or in other parts of the Country facing tight energy supplies and rolling blackouts this Summer—there is nothing we can do to help when we could be taking the lead on making our economy more energy efficient today.

This is just the beginning of a vigorous debate on energy policy. Democrats intend to join in a constructive dialogue to find real solutions to our energy problems. Solutions that help working families and truly contribute to making us energy independent. In the months ahead, we look forward to working with this Subcommittee and the other Committees of the House to formulate a policy that will benefit all Americans.

PREPARED STATEMENT OF HON. DUNCAN HUNTER, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF CALIFORNIA

Chairman Barton, members of the Subcommittee, I would like to extend my appreciation for the opportunity to be here today to provide testimony on the electricity crisis currently impacting my home state of California. Further, I thank you for your continued willingness to examine this matter and I know that you share the view that this crisis must be given every priority if we are expected to help reestablish a properly functioning power market in California.

Mr. Chairman, I believe that one of the prevailing themes that the Subcommittee will receive today is that the electricity problem in California is an emergency, and it is a crisis that is bigger in proportion than any natural disaster our State has

ever experienced. The startling element associated with this problem is the staggering amount of life savings and business capital that is gone forever. This is money that could go to mortgage payments, to educate children, and in the case of small businesses, money that has already left our local economies that may have otherwise served to further stimulate our State's financial growth. As you know, one of the central issues to this dilemma is the inability to establish enough power generation in California to meet our ever-increasing electricity needs. To help remedy this situation, I am introducing separate pieces of legislation that would provide the authority to expedite and expand the siting and operations of electricity producing facilities of all sizes. More precisely, my legislation would provide the following:

- 1) the statutory authority necessary for the President to suspend all applicable siting and emissions compliance requirements for the purpose of establishing new electricity generation capacity in any State experiencing a power crisis; and
- 2) the ability for any individual or business, during designated times of emergency, to operate any independent source of generation, with any sort of fuel available, until the emergency has subsided.

Mr. Chairman, I recognize the profound and ambitious nature of these proposals, but I believe that this level of action is more than warranted. In the absence of a properly functioning market, which has allowed for the major power generators selling into California to establish a monopoly that is every bit as effective as anything John D. Rockefeller could have conceived, our cities, businesses and private citizens must have the ability to develop electricity independence.

In closing, I would implore this Subcommittee to consider all proposals designed to establish and expand all possible sources of electricity generation. Our consumers cannot, under any circumstances, be expected to be held hostage by an electricity market that has witnessed price increases which have exceeded 9,000 percent in a matter of hours.

Thank you, Mr. Chairman, and members of this Subcommittee, for the opportunity to provide this testimony. I am confident that if we pursue this matter in an aggressive and expedited manner, we can provide California with the resources necessary to help stabilize its electricity industry before the existing crisis deteriorates any further.

PREPARED STATEMENT OF HON. JOHN B. LARSON, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF CONNECTICUT

Mr. Chairman, I would like to thank you for calling this hearing to allow members to discuss the current California energy crisis and other issues generally related to energy efficiency. I am sure that throughout the day you will be hearing testimony from many Members about the problems in California at this time and the desperate situation individuals and business have been subjected to. However, I hope to bring before the Committee and my colleagues from the western United States a potential solution to many of the current energy problems facing California and its neighboring states.

The problems in California did not develop in a vacuum. Ever since the people of the First District of Connecticut first sent me to Congress I have been fighting with the help of many of my colleagues to begin a serious debate about energy policy reform in this country. Since I was sent here in 1998, energy prices in New England have risen over 200 percent for home heating oil, and natural gas, diesel, and gasoline have also all seen significant increases. That is why we have been fighting so hard for programs like the Strategic Home Heating Oil Reserve now established in New England to head off emergency in the heating oil market, and increased LIHEAP assistance for eligible individuals.

Fortunately for Connecticut's consumers and businesses and unlike California, electricity prices have remained stable during this time because Connecticut allows for long-term contract purchasing of power under its deregulated electricity market, and provides incentives that make generating electricity more attractive than attempting to purchase it on the open spot market. However, it is only a matter of time before the overall inflation of energy costs, particularly those related to electricity generation, will catch up with the northeast as well. As the California situation is reminding us, there are no real short-term solutions for long-term problems.

That is why I introduced HR 5585, the Energy Independence Act, toward the end of the 106th Congress, to begin to address these issues and the fundamental weaknesses beginning to show in America's energy infrastructure. I am working to reintroduce the legislation targeting development of fuel cell technology again soon, and I believe that this technology and my legislation could provide immediate and

beneficial effects improving the energy and environmental outlook of California and the United States as a whole.

Specifically, my legislation would invest approximately $\frac{1}{60}$ of the nation's total yearly expenditures in 1999 and $\frac{1}{120}$ of 2000's expenditures on foreign oil to develop and demonstrate fuel cell technology that can power our homes, businesses, and vehicles over the next five years. My bill calls for a \$1 billion 5-year investment that should eliminate our reliance on foreign energy sources by 2010 and improve world environmental conditions by reducing overall consumption of fossil fuels and the harmful chemical emissions they produce. It authorizes a federal purchase program for commercially available stationary fuel cell power systems and demonstrations of new Proton Exchange Membrane (PEM) technology for residential, commercial and transportation applications including transit vehicles. In addition, it would establish a grant program for states and local municipalities to help local communities incorporate this new technology into their overall energy portfolios.

I believe that government action is necessary at the state and federal level to help defray the high introductory costs of fuel cell technology at this time and accelerate their commercialization. A federal tax credit, such as the one proposed by my colleague Nancy Johnson, as well as grant programs for federal facilities and municipalities will increase volume and thereby reduce overall costs, making the technology more available so its many benefits can be enjoyed by the general public. State and federal government purchases of fuel cells represent another means to deploy the technology while enhancing public safety and ensuring critical energy loads are served with reliable, clean energy sources. The government can also help to eliminate barriers to distributed generation so fuel cell technology can compete with existing power generating sources.

The government must play a role in this transition for several reasons. First and foremost, it will provide for the security of the country in both economic and military terms by eliminating our reliance on foreign energy sources. Second, we have a responsibility to our seniors and to other people living on fixed incomes to see that they have opportunity to live within their means without being forced to choose between putting food on their tables, gas in their cars, buying oil to heat their homes, or buying electricity to power their homes. Third, there is the opportunity within the government's infrastructure to most easily begin a widespread integration of this technology. Fourth, the spread and use of this technology has the opportunity to create a contribution in economic growth and in job creation every bit as significant as the development of the high tech industry during the last decade. Further, as government regulations increasingly call for stricter clean air and other pollution limits, fuel cells can provide an effective way for states and communities to meet these new environmental challenges.

Many people would argue that the problems in California stem from underestimating projected energy demands and a deregulation program that failed because it capped retail sales to consumers and prevented long term contracting. Regardless of the cause, California must increase its power generating capability by thousands of megawatts, an increase it is expected to take 1-3 years to deploy, select, and become operational.

There are clear benefits in using fuel cell technology to address the California energy situation that can also be applied in other areas throughout the country. First, as a distributed generation technology, fuel cells address the immediate need for secure and adequate energy supplies, while reducing grid demand and increasing grid flexibility. Fuel cells can be used by electric utilities to fill load pockets when and where new large-scale power plants are impractical or cannot be sited. Fuel cell systems also avoid the costly and environmentally problematic installation of transmission and distribution systems. Commercially manufactured fuel cell power plants can be sited in a few months period of time and can provide continuous, reliable power without the need to roll back existing environmental requirements.

Second, Fuel cell power plants provide a constant source of power that can be used for base load applications. Unlike other environmentally favorable solutions, fuel cells can be used as a continuous source of base power—independent of time-of-day or weather—for critical facilities, thereby offloading current strains on existing demand.

Third, fuel cells represent an environmentally favorable solution, with near-zero emissions—positively impacting the State's air quality objectives, particularly as compared to less efficient, polluting alternatives. When operating at its rated power, a single 200 kW PC25 fuel cell power plant, manufactured by International Fuel Cells (IFC) and currently the only commercially available unit, eliminates an average of more than 40,000 pounds of air pollutants including NO_x and SO_x and two million pounds of CO_2 emissions per year otherwise emitted by typical US combustion-based generators.

Fourth, fuel cells are a highly efficient technology that uses an electro-chemical reaction to generate electricity and are inherently more efficient than combustion-based systems. In the electricity-only mode of operation, the IFC PC25 unit achieves approximately 40 percent efficiency. When the waste heat from the fuel cell is utilized, the system's efficiency reaches 87 percent. In addition, fuel cells can be installed at the point of use thus eliminating transmission line losses and enhancing their overall efficiency, providing power at the point-of-use, thereby alleviating the load on the existing transmission and distribution infrastructure, and eliminating or minimizing the need for additional investment in the existing transmission and distribution network.

Fifth, the use of fuel cells helps to diversify California's and the country's energy market. Fuel cells can operate with a variety of fuel sources, but most commonly use natural gas. For example, fuel cell systems have been developed that use anaerobic digester gases from wastewater treatment facilities as their source of energy. These applications are particularly significant since they avoid the flaring of methane—a potent greenhouse gas that contributes to global warming—and the need to use a fossil fuel energy source. This employment of fuel cell technology is currently in use at the Rancho Las Virgenes Composting facility in Calabasas, California outside of Los Angeles, the first installation of its kind in California and the fourth in the United States. Similar systems also manufactured by International Fuel Cells in South Windsor, Connecticut, are also operating in Germany and Japan. A total of Eight PC25 units are currently operating in California, including power plants at a hospital in Riverside, a hotel in Irvine, a jail in Santa Barbara, and the South Coast Air Quality Management District Headquarters outside Los Angeles in addition to the one in Calabasas.

Finally, the compact size, low noise and near zero emissions allows a fuel cell system to be readily absorbed into communities and neighborhoods. Unlike many other forms of power generation, fuel cell power plants are good neighbors to concerned citizens. For example, a PC25 installation in New York City is located inside the Conde Nast skyscraper at 4 Times Square, where it provides 5 percent of the building's electrical needs and the waste heat is used to run the air conditioning. The fuel cell system also provides critical backup power in case the grid fails.

While fuel cells cannot supply enough power in the short term to solve the entire power supply needs of California, they can be deployed strategically to ensure that critical services and operations have a secure, reliable, efficient and clean source of energy. High priority should be given to the installation of fuel cells in assured power applications involving emergency services, public safety, health care, communications and data processing operations. Leading industry officials have assured me that 20 to 40 megawatts of new fuel cell power supply could be available to California for such applications in the next 18-24 months.

In conclusion, I believe that implementation of fuel cell technology could significantly improve California's immediate energy needs and their extraordinary efficiency would improve the overall national energy portfolio. This technology has been with us since it was first used to power the Gemini and Apollo spacecraft, and is still powering NASA's fleet of space shuttles. It has finally matured to a point where stationary power plants are providing reliable commercial power today and is prepared to demonstrate its advantages to the general public in clean, quiet, and efficient residential, bus, and car applications.

Fuel cell technology presents us with an extraordinary opportunity, at a critical time in this country's development. I believe we stand now on a fundamental crossroad in this country where we have the ability to provide for the economic and national security of the nation by integrating this new technology into our economy. As you move forward with potentially compatible programs under your jurisdiction, I urge you to consider integrating fuel cell technology to meet your energy and energy efficiency requirements. Your leadership at this critical juncture in our nation's history can profoundly improve the security and independence of every American, and provide a safer, more secure, more productive, and cleaner environment for generations to come. We must not allow this opportunity to be lost.

Thank you again Mr. Chairman and members of the Subcommittee for your efforts in this important area.

PREPARED STATEMENT OF HON. BILL LUTHER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Thank you Mr. Chairman for holding this hearing today so we can all better understand and learn from the events in California over the past few months. I am pleased that there are so many members from the West Coast testifying today and

offering their unique perspectives on the issue. I come from Minnesota, a state that has not moved toward restructuring legislation at the state level. This committee would be well served to continue these types of hearings in an attempt to analyze what some states did better than others as they moved toward a restructured market. This type of analysis should prove helpful as this committee attempts to produce a comprehensive national energy policy. Thank you Mr. Chairman, I look forward to the testimony.

PREPARED STATEMENT OF HON. BUTCH OTTER, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF INDIANA

Thank you, Chairman Barton and Ranking Member Boucher, for inviting me to testify today before the Energy and Commerce subcommittee about the growing energy crisis we now face in the West. Let me say it again—this is an energy crisis in the West—not just in California. While almost all of the media and legislative attention has focused on California citizens' inability to meet their growing demand for electricity, I am here representing 600,000 people in an area of Idaho that is on the forefront of this growing crisis. And, it's time for straight talk.

I read recently that California's three major electric utilities have accumulated debts totaling \$1 billion. This debt includes millions of dollars owed by California's utilities to Idaho Power Company, and other major power producers in the Pacific Northwest. That is money that will undoubtedly be made up through huge rate increases to families, rural towns, farmers, and industries that provide jobs to thousands of Idaho citizens. At this point, Idaho power users could face rate increases from 24 to 55 percent in the next few months. Farmers, already suffering from record low agricultural prices for their products, will also face additional costs to pump irrigation water this spring and summer. Mills and factories have already been forced to shut down or lay off workers because of their high electricity costs.

Meanwhile, water and snowpack levels in Pacific Northwest reservoirs—the same water that is necessary to irrigate crops, improve endangered fish runs, provide for recreation, and which generates electricity—is at a dangerously low level. Federal dams are now spilling water that should be available for the region's needs later.

Mr. Chairman, the current drought and power crisis have demonstrated the importance of hydropower to the energy needs of the west. Hydropower is cheap, clean and renewable, all elements we need in our 21st century needs. California receives 24 percent of its energy capacity from dams. In the entire West more than 25,000 Megawatts (MW) of capacity are supplied by non-federal facilities. These hydro-power supplies, however, are threatened by the Federal Energy Regulatory Committee's (FERC) stringent re-licensing process.

In 1986 Congress mandated that FERC give "equal consideration" to environmental and economic factors during relicensing. Unfortunately, equal consideration has been interpreted to consider economic factors last during relicensing. Since 1987 the average FERC relicensing has caused 10 percent of peak generating capacity to disappear.

I believe that steps must be taken to ease the FERC relicensing project in order to protect our energy supplies. Mr. Chairman, you and Mr. Towns deserve to be congratulated for your efforts last Congress to bring regulatory reform. I look forward to working with you and my fellow Idahoan Senator Craig to make FERC reform a reality.

FERC reform is good for the environment. Right now every watt of power lost from hydro projects is replaced by the burning of fossil fuels. FERC relicensing will enable power producers to make more extensive use of mitigation banking, enhancing the environment while protecting energy supplies.

In addition to regulatory streamlining, we must take steps to expand our hydro-electric capacity. The United States Department of Energy estimates there are more than 10,000 MW of generating capacity that can be added at existing dams. Tax credits for producing renewable electricity and adding generating capacity to dams that lack it will enable us to meet more of our energy needs in a safe and environmentally friendly way. Currently Bonneville Power Administration (BPA) is paying farmers \$75 per megawatt hour not to use their electric pumps. Surely that money would be better spent on generating the extra power to keep our farms and businesses in operation. Renewable energy credits could be extended to wind, solar and nuclear plants as well. All of these additional sources of power will help alleviate the current crisis, and help build a long-term and stable national energy policy.

Thank you again Chairman Barton for asking me to testify.

PREPARED STATEMENT OF HON. JIM RYUN, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF KANSAS

I want to thank the Chairman and subcommittee members for holding this important hearing on current energy issues and for providing members the opportunity to testify on our nation's energy policy. I am grateful for the opportunity to speak on behalf of my constituents in the Second District of Kansas and to offer my perspective on our need for a comprehensive energy policy.

As we all know, this winter season has been especially difficult for natural gas customers. Senior citizens and others on fixed incomes simply can not keep up with the cost of rising natural gas bills. For example, at a January hearing before Kansas lawmakers a seventy-seven year-old man from my district who suffers from cerebral palsy testified that he simply could not afford to pay his \$636.72 gas bill. Another constituent gave lawmakers a copy of her January electric and gas bill totaling \$1,785.09. Mr. Chairman, I know these stories are not uncommon to the rest of the country. They also underscore the vital importance of the Low-Income Home Energy Assistance Program.

In addition, our nation's farmers are also affected by the impact of skyrocketing natural gas prices. Farmers will especially feel the impact this spring when they will have to pay up to one-third more to fertilize spring crops. The high cost of natural gas has forced several fertilizer plants to curb production or shut down temporarily. Fertilizer companies use natural gas to produce ammonia, which is converted into nitrogen fertilizer. America's farmers are already faced with low commodity prices. They can not afford to endure high natural gas prices.

Clearly, a combination of factors has contributed to high natural gas prices. Increase in demand caused by a hot summer and cold winter combined with a decrease in drilling as a result of low commodity prices two years ago contributed substantially to high natural gas prices.

However, while supply and demand will always control prices, we can support and promote a national energy policy intended to curtail high energy costs in the future by increasing supply.

This winter has proven the danger of our heavy reliance on natural gas. Prices for natural gas have soared faster than any other energy source. It is vital that we take advantage of additional sources to supply our energy needs. Clean coal, for example, is certainly a viable alternative to natural gas for electric generation. A comprehensive energy policy should include support for clean coal technologies.

In addition, we need an energy plan that promotes domestic oil and gas production and decreases our dependence on foreign suppliers. Unfortunately, the energy policy we inherited from the previous administration failed to reduce our dependence on foreign oil as we remain 56 percent dependent on foreign sources for our oil supplies. Clearly, we cannot continue to bow to the demands of the OPEC cartel and remain subject to oil supply interruptions. That is precisely why we need to increase exploration of our own domestic resources.

Alaska's Arctic National Wildlife Refuge alone contains at least 16 billion barrels of recoverable oil. Opening this area to oil exploration, development and production that is done in an environmentally sensitive manner would greatly increase our domestic supply and help meet growing demand. In addition, we could increase domestic production of natural gas by easing restrictions on national forests and other Federal lands that contain natural gas reserves.

Moreover, we can encourage energy conservation by extending the wind tax credit to include electricity produced from biomass, agricultural and animal waste, incremental hydropower, geothermal, landfill gas and steel cogeneration. We can also explore more opportunities for nuclear power production as it serves as a one of the cleanest sources of energy.

I am pleased by efforts made in my state of Kansas to provide immediate relief to natural gas consumers faced with exorbitant energy bills. However, we in Congress must provide the leadership in implementing a long-term energy policy that meets the growing energy needs of our nation while reducing our dependence on foreign supplies.

I want to thank you, Mr. Chairman, and the Committee for the opportunity to testify on this very pressing issue and for hearing my views. I look forward to working with you in the future to promote a sound energy policy for our nation.

PREPARED STATEMENT OF HON. MAX SANDLIN, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF TEXAS

First, I would like to start by thanking Chairman Tauzin and Subcommittee Chairman Barton and Ranking Member Boucher for calling a hearing to receive tes-

timony from Members of Congress on current energy issues. There are few topics of greater importance to my constituent's than soaring energy prices and the instability of domestic energy supplies. Although Texas has not experienced the type of energy crisis now occurring in California, high natural gas prices, combined with a colder than normal winter, produced steep increases in residential heating bills—increases that eat up a large share of East Texan's incomes. I know that several members from the California delegation can testify with greater certainty as to the true impact of what is now occurring in their state. Rather than speak to the situation in California directly, I would like to pull-back, and talk briefly about what I feel are a few key things Congress can do to promote domestic energy sources and thus strengthen our economic and energy security.

My district is home to some of the oldest oil and gas production wells in Texas. In fact, I doubt that there is any part of my nineteen county district that has not been surveyed, drilled, or plugged for oil and gas over the last century. As a member of Congress representing an energy producing part of the country, I look at the problems in California and throughout the United States as an opportunity to have a serious discussion on energy issues. It was because of the last energy shock, a quarter century ago, that Americans were forced to think about energy as anything but an uninterrupted resource, immune from political, economic, and natural events. That crisis produced actions from policymakers, consumers, and energy producers that significantly altered our nation's energy strategy. This year, as the issue of energy is once again front and center in America's consciousness, Congress has an opportunity to realign an energy policy that is adrift and does not meet our needs.

The United States is a country dependent on fossil fuels and will be for the foreseeable future. Petroleum and natural gas currently account for approximately 65 percent of the nation's energy supply and, in fact, natural gas demand is expected to increase by more than 30 percent over the next decade. Although many want to wish this fact away, doing so will not improve our current situation, and will actually cause greater long-term damage.

Another reality is that our dependence on foreign oil imports is greater than at any time in our history. Foreign oil imports have grown to 56 percent of crude oil needs, and the Department of Energy projects our energy dependence will grow in the years to come—reaching 65 percent by 2020. In 1973, foreign oil only accounted for 35 percent of our needs. We are going in the wrong direction.

As demand for oil and natural gas increases our ability to control these critical resources is eroded by a failure to strengthen the domestic energy sector. Although the United States remains the second or third largest producer of petroleum, it is operating from a mature resource base that makes the cost of production higher than in competitor nations. The United States has approximately 600,000 oil wells in operation today. Nearly 500,000 of those wells produce less than 3 barrels of oil per day—making our oil the most cost sensitive and price sensitive oil in the world. (Compare this to Saudi Arabia where the average oil well produces more than 5,000 barrels of oil per day!)

What can be done to encourage and strengthen our domestic oil and gas industry?

We must begin working on ways to draw people back into the domestic energy sector. Domestic independent oil producers—the producers who account for 60 percent of oil production in the lower 48 states onshore, produce two-thirds of our natural gas, and drill 80 percent of the natural gas wells—are essential to limiting U.S. reliance on foreign oil and developing domestic natural gas. Unfortunately, foreign countries that export oil to the U.S. have used crude oil price volatility to remove “high costs” U.S. marginal oil production and gain a bigger piece of the market share in the U.S. We have the opportunity to reverse this trend.

Reforming our tax code to provide incentives for domestic production and exploration will promote our national interests by removing the barriers to capital access that are causing the mass exodus of independent producers from the domestic oil and gas industry. These reforms include:

Marginal Well Production Tax Credit: This credit will allow a \$3 barrel tax credit for the first 3 barrels of daily production from an existing marginal oil well and a \$.50 per Mcf tax credit for the first 18Mcf of daily natural gas production from a marginal well. Without such safety nets, thousands of U.S. well and tens of thousands of U.S. jobs they support will be lost when prices fall.

Inactive Well Recovery: We should consider providing producers with a federal income tax exemption for bringing back into production abandoned, idled, and plugged wells.

Geological and Geophysical Costs: By allowing current expensing of geological and geophysical costs incurred domestically, domestic producers can benefit from

the same tax incentives for research and development that we provide to other industries.

Eliminate the Net Income Limitation on Percentage Depletion: Once wells are plugged and abandoned, access to the remaining resource is often lost forever. Eliminating the net income limitation on percentage depletion would encourage producers to keep marginally economic wells in production and enhance optimum oil and natural gas resource recovery.

Enhanced Oil Recovery: By expanding the definition of methods qualifying for the EOR tax credit, we can encourage conservation measures to expand recovery of existing crude oil reservoirs and promote new drilling activity.

Tax Treatment of Delay Rentals: We should consider clarifying that delay rental payments are deductible, at the election of the taxpayer, as ordinary and necessary business expenses. Given the disagreement over the legislative history and the likelihood of costly and unnecessary litigation to resolve the issue, clarification would eliminate administrative and compliance burdens on taxpayers and the IRS.

These bipartisan proposals to modify the tax code can augment the inflow of capital and reinvestment of cash flow crucial to the expansion of this industry. Independent producers are still recovering from the low oil prices of 1998-99 that resulted in the loss of 65,000 jobs and a 10 percent decline of domestic oil production. Now is the time to replace counterproductive tax actions with policies that will encourage production and shield the industry when prices again decline.

Mr. Chairman, I am hopeful that Congress will take up these pro-growth tax reform proposals in the 107th Congress. In past Administrations, Democratic and Republican, various public officials have taken an ad hoc pledge to pursue energy independence for the nation, but this commitment quickly fades into complacency once the crisis-of-the-moment begins to subside. We must not allow this to happen again. We have an opportunity to implement policies that would encourage, rather than discourage, U.S. oil and gas production and make our domestic energy industry more efficient. I sincerely hope that individuals of good faith can work together in implementing significant parts of this agenda.

Mr. Chairman, thank you for the opportunity to comment today on these important matters and I look forward to working with you and other Members' on these issues.

